THE COMING SCRAP OF PAPER

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BY

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PREFACE

After this example we must not confide too surely in long-established credit, or in firmly rooted traditions of business We must examine the system on which these great masses of money are manipulated, and assure ourselves that it is safe and right

WALTER BAGEHOT, *Lombard Street*

SINCE the following pages were written pamphlets and articles have commenced to appear for the consideration of the public dealing with the financial situation brought about by the war, and the question of currency steadily comes to the front in one aspect or another.

Little, however, will be accomplished of permanent value unless the nation as a whole, as distinguished from individuals merely interested in a technical subject, realize the vast importance of it, and have

the issues placed before them in a plain way.

Most writers on finance still allow their minds to labour under the fiction of the "gold standard," the consequence being that the light which they wish to disseminate is presented through this superstitious medium.

In times of peace and seeming prosperity it is not easy to get people to revise their thinking At the present time, however, when a severe blow has been dealt at preconceived ideas, and many of them will have to be abandoned and new ones accepted in their place, the case should be different.

At the moment public attention is focussed on the seat of war; but the time must inevitably come when the present economic and financial situation will have to be faced in all seriousness, and it is revealing no secret to say that when it does arrive, the issues are so stupendous that it will be impossible to adjust them by having reference to old methods or doctrines which have served their time, but which most assuredly

will not cope with the reorganization that must take place.

In the meantime it is absolutely incumbent on all those who are acquainted with commercial finance to look into the theories which underlie their everyday transactions, and jettison those which do not ring true on the anvil of experience.

That Great Britain can still lead the way in national and international commerce is undoubted, but not by old methods or old doctrines. To find the way out of present difficulties we must be prepared to think, and again to think, and eventually to revise our thinking. Neither Conservative instincts, Liberal traditions, nor Socialist doctrines must be allowed to stand in the way at this supreme moment of our national existence.

The intention of this work is to show that the money system upon which our whole national life is based—viz. the gold standard—has for years past been undermined by paper money (i e. by means of the cheque system); it has,

in fact, already been virtually destroyed This process has opened the way to alterations in the commercial, agricultural, and social relations of the national life that are fraught with untold possibilities for the welfare of every class of the community, and eventually for the benefit of the world at large.

The distressing thing is that it needed a European calamity of the present dimensions to make the nation face the actual facts in a practical way, and the awakening commenced on August 4, 1914, when, with the banks closed for three days, national bankruptcy stared us in the face

Though the crisis is held up for the moment it is by no means over, and thinking minds are beginning to see that paper money has come to stay.

It only now remains to ensure that this form of currency shall be based on right principles, and I have tried to show what these principles are, and how they should be applied They differ in every respect from

those which have governed previous attempts to issue paper money.

For the bulk of my thesis I have drawn largely on the economic works of the late Cecil Balfour Phipson, and I feel convinced that if once the "natural economics" of which he was the exponent could receive the attention they deserve, there can be but little doubt that it would not be long before a silent revolution commenced which would establish our country on a firm social and economic basis, productive of contentment at home, and of such international peace and goodwill as to-day seems beyond the bounds of hope.

My warmest thanks are due to my friend Mark B F. Major, Esq, who has added to his many kindnesses to me that of laboriously criticizing and correcting this small work before its final appearance. Mr. Major's knowledge of the subject is vast, and his patience and skill in debate, coupled with his no less delightful courtesy, never fails to win his opponent's envy.

I also take this opportunity of expressing my obligations to my friend T. G. Harper, Esq, M.A., for his valuable lectures on Economics, much of which he will, no doubt, find reflected in the following pages

E. W E.

WADDON, SURREY,
October 19, 1915.

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CHAPTER I

THE FINANCIAL CRISIS OF 1914

AMONGST the many things for which the war will be famous, few will stand out so prominently as the way in which the Government adopted, and the nation adapted itself to, measures for the public safety and convenience which, in normal times, would have been the signal for the outbreak of violent party controversy and ebullition of party feeling. Every inch of ground would have been as stubbornly contested as the military actions which have been fought by the British on the Continent during 1914-15.

The temporary nationalization of the railways, the proposals for afforestation, the

commercial system was laid bare. War forced us to face the fact that we were unable to continue our business owing to the insufficiency of a gold currency. In the national emergency it was necessary to husband the reserve of gold in order to pay for our trade abroad and other items of prime necessity; for having declared to the world that we would pay gold for our commitments whenever demanded of us, and having never yet failed to meet this engagement, it was of supreme importance that, though there was war at our doors, we should not fail to continue to do so if it were required of us. The Englishman's word is his bond!

But, it may be objected, if there was an insufficient supply of gold, there was ample ability to draw cheques, as there were substantial balances in the banks to the credit of the public.

That is true, but what did the owners of those accounts discover when the British ultimatum expired? *That the banks were shut*, and no conciseness of language could

convey in fewer words the practical meaning of that—*the substantial balances were unobtainable* until such time as it pleased the banks to reopen their doors, and even then only 10 per cent. of the balances were obtainable in gold

But, it may again be urged, why did the banks close their doors? The answer is that they knew that in such a time as war the public would wish to obtain in gold the amount of those balances standing to their credit in the books of the bank, and the directors were aware that they had not sufficient gold wherewith to meet a demand of any dimensions and seriousness should it arise. As a matter of fact there was a mild "run" on the Bank of England, which was only checked by the ability of that Bank to satisfy the demand as it arose, thus helping to restore public confidence.

Roughly speaking, bankers throughout the country at the best of times have not even 8 per cent of gold available to meet such demand as there may be for it. That is to say, for every £100 shown to the credit

of any individual at any particular bank only £8 could be obtained in gold if every one asked for gold at once. What, then, of the other £92? Where is that, and what is it? It exists only in the promise of the banker to pay—a promise which, in the circumstances, he could not fulfil if all asked to have their balances turned into gold. For a banker carries on his business on the unspoken and unwritten understanding that the community as a whole will not demand gold of him, but if circumstances arise which override this understanding, both his position and that of every one else in the community becomes precarious.

Hence, on the declaration of war, bankruptcy stared us in the face in a very real way if means could not be found immediately to supplement the existing currency and raise the 8 per cent. possibility to pay to a higher level.

Gold could not be obtained at a moment's notice. It has to be dug from the bowels of the earth, refined, shipped, coined, all of which takes time. But the Government had

to act *immediately*. Therefore it was necessary to resort to something which was immediately available—viz. paper—and this was impressed and invested with the dignity and function of gold. Up to October 7, 1915, no less than £73,076,887 of this paper currency in £1 and 10s. Treasury notes had been issued.[1]

It was said, "The banks are issuing paper currency"; and as this sounded sufficiently ponderous and sonorous, the situation was accepted. When our cheques were again presented at the banks, the little bits of paper were taken in exchange, and were found to liquidate liabilities which were awaiting settlement, such as a midday lunch or a Ritz Hotel dinner, housekeeping bills and similar debts. When through use the novelty had disappeared any one may have been excused the exclamation, "How simple!"

But what about our boasted gold currency? The law is that debts are only legally

[1] Against which the actual gold coin and bullion held on that day was £28,500,000

discharged in gold. But the curious thing is that whilst it makes the enactment it does not provide sufficient gold wherewith to carry out that which it legally demands. And the chances are that, even if the Government wanted to, it would be unable to force payment in gold, for there probably does not exist in the world a sufficiency of the precious metal to effect the exchanges necessary Thus the fact emerges that the law requires that which is impossible.

How, then, do business affairs get settled? The prerogative of issuing currency belongs solely to the King through the Government. But it has already been shown that the amount of legal currency which is issued is far short of what is required, nor could a sufficiency be issued. From this fact it has arisen that bankers have, in effect, usurped the prerogative of the King by issuing a currency which they call "credit," whose symbol is not gold but a cheque, which is paper, and in order to see the difference between gold currency and the

cheque (paper) currency it is only necessary to compare the Bank of England's statement for any given week with the corresponding return of the London Bankers' Clearing House, and this will at once show how insignificant is the base of gold and how vast is the superstructure of paper.

Now, do not let it be supposed that when a cheque is received in discharge of a liability payment is made in the King's currency—legal tender. Probably less than 3 per cent. in amount of all payments are made in gold; the remaining 97 per cent., in normal times, is accepted without hesitation by creditors in paper currency, chiefly in the form of cheques. These cheques are nothing more than a paper order on a banker, instructing him to transfer his promise to pay to some one else.

Hence it is obvious that the bulk of everyday transactions are conducted in a paper currency *which is not backed by gold*, in spite of the theory that it is, and there is no escape from the conclusion that the bulk of transactions are really based

upon the stability of our national institutions, the good faith of bankers, and the collective determination to do without gold.[1]

At times, such as at present, when events force facts to be faced, the true monetary position is revealed, and what might pass for sound finance in peace becomes suddenly dangerous in a financial crisis.

Existing gold currency is insufficient in times of strain. Indeed, in the present instance, *it* had to be supported by issuing a different class of currency in the shape of £1 and 10s paper notes What really counted, then, and what formed the real support was faith in national institutions and national integrity, and that is all that is required in this country

The issue of currency, then, whether it be gold or paper, is the prerogative of the King through the Government. The object of currency, whether it be gold or paper, is to facilitate exchanges. The more exchanges there are which require to be made

[1] Credit means that a certain confidence is given, and a certain trust reposed (W Bagehot's "Lombard Street")

the larger the currency necessary. Gold is a restricted article and valuable in itself. If exchanges increase, currency, either gold or paper, should increase in order to keep prices uniform. If it does not increase with the demand for it, its purchasing power rises and prices fall If it does increase beyond the demand for it, its purchasing power decreases and prices rise.

But as a matter of justice it should neither relatively increase nor decrease, but should always be capable of being accurately adjusted to the exchanges which have to be made. Owing to its restricted nature, gold cannot be so adjusted to the exchanges, and if the purchasing power increases debtors are in effect robbed, as they have to give more labour, or labour products, to obtain the money with which to pay the debt, while if it decreases it is the creditors who suffer, as the money owing to them will not go so far in making purchases.

It is only necessary to consider the position of annuitants—old-age pensioners, for example—whose fixed income does not

purchase now (1915) as much as it did even a year ago, and still less than, say, three years ago.[1] Some part of the recent depreciation is, no doubt, due to the war conditions, but before the war the general rise in prices which had been going on for some years had depreciated the purchasing power of a sovereign to sixteen shillings.

Gold, then, fails as a true medium of exchange. It cannot fulfil its function, for there is not enough of it, and this fact, taken in conjunction with the necessarily unregulated condition of the credit currency which exists, is the secret of many of our commercial troubles and difficulties (to say nothing of the social ones) which neither the State nor the banks have hitherto tried to remove.

It will be the object of the following chapters to point these out and the way in which they should be remedied.

[1] See pp 42–5.

CHAPTER II

PHANTOM MONEY

IN the last chapter the conclusion was hinted at that for all practical purposes the present narrow margin of gold which is supposed to support our enormous credit transactions could be dispensed with, seeing that the actual currency in use is based upon faith in the stability of our national institutions and the integrity of bankers—not upon gold.

To the average person the suggestion to eliminate gold may seem of so startling a nature as to be outside the range of practical finance, and this chiefly on account of the fact that there is supposed to be something indispensable in gold without which no business could be transacted. This illusion, for it is nothing less, is somewhat analogous to that which exists in the minds

of some people regarding the stamp on a document They think it is the stamp which clothes it with force and authority, forgetting that the legal character of the document is always inherent in it, the absence of the stamp merely prohibiting the legal effect being put into action as a penalty for its absence on the document for revenue purposes

It is worth while inquiring into this a little more closely, and the following paragraph, which appeared in the *Evening News* of October 7, 1914, is instructive in this respect —

> *Egyptian bonds and notes* —London will soon, apparently, be asked to subscribe for £5,000,000 of Egyptian Government Treasury Bonds carrying the guarantee of the British Government This issue is part of an interesting experiment The National Bank of Egypt is to make an emergency issue of notes which will be backed by part of the proceeds of the bond issue These notes are intended to be used for currency for cotton crop purposes in place of the gold that usually goes out of the Bank of England every autumn for that purpose

It will be noted that the great object to be attained was to save the flow of gold

which usually leaves London at that particular time of the year in order to finance the Egyptian cotton crop. As it was desired to keep as much gold here as possible, the "interesting experiment" was to be made of making a paper currency do the work of gold. To this end the National Bank of Egypt was to make an emergency issue of notes which were to be "backed" by part of the proceeds of a Treasury Bond issue. Consider how this bond issue was subscribed for. Individuals presented their cheques at the issuing bank for whatever number of bonds they desired to take up, each cheque being only fractionally representative of gold. Thus the bank which issued the bonds had against them a collection of paper cheques, and it is these bonds which were to "back" the currency notes—i e. paper will back paper.

But note once more that the Treasury bonds "carry the guarantee of the British Government," and this, of course, is in reality the actual "backing" of the notes, and bears out exactly the contention already advanced,

viz that reliance is really placed upon the stability of the national Government and institutions.

As illustrative again of the view that our credit rests upon the particular base already indicated and not upon gold, consider what really took place in the flotation of the Government's first War Loan in November 1914.

It would be no exaggeration of language to say that after reading Mr Lloyd George's speech of November 16, 1914, patriotic persons rose from their chairs with the just and proud consciousness that something really great had been done. The chance had come at last for that great army to take the field which, either from age, sex, or other disability, could not line the trenches in Flanders in person, but who, from their financial armoury, were capable of bringing such a fusillade to bear on the enemy as to constitute them as effective a fighting corps as their fellows already in the field

Mr Lloyd George is a past-master in the

art of coining the right phrase for the right moment, and his appropriation of "gold and silver bullets" will rank amongst his many successes in this direction. But for all that, in spite of its picturesqueness, it is not true, for it is safe to say that of the £350,000,000 which stood to the credit of the Government in the books of the Bank of England only the minutest fraction of that vast amount is either gold or silver.

As patriotic persons, we are justly proud that the Government's financial effort was attended with such success, but before we give way to unqualified feelings of self-satisfaction, it is worth pausing a moment to consider exactly what happened.

The Government wanted money wherewith to carry on the war, and they applied to the people of England for a loan of £350,000,000—that is to say, for three hundred and fifty million pounds sterling, for that is what the figures with the sign £ before them signifies.

Have they got them? No. What they

have got is an aggregation of figures written on pieces of paper called cheques, which, when added up, amount to 350,000,000, but not to £350,000,000.

The loan, for the greater part, having been subscribed for by cheque, consists really of paper money, and the best proof of this assertion is that if the Government had set out to do what they meant to do, viz. to raise £350,000,000 of money by way of loan, and had asked for it *in money*, they would never have succeeded in obtaining it, for such a sum in gold could not be found within the British Empire.

What, then, has been done? The most that can be said is that sundry and various bankers have promised to pay sundry and various individuals the sum of £350,000,000, and these people, by means of cheques, have transferred this promise to the Government in payment of their subscriptions to the War Loan. But the bankers could never carry out their promise to pay these people the sum mentioned, yet they can transfer it to the Government, who

readily and eagerly accept it, and announce the successful flotation of the loan. But they have never received the money, and never could.

The curiosity of the situation deepens when we consider the next point. It was announced that the Bank of England (on the security of the Government) will be prepared to advance against the War Loan bonds 95 per cent. of their face value against the deposit of such bonds.

What a complexity! First there is borrowed 350,000,000 phantom pounds which do not in reality exist, and by the deposit of the piece of paper which is supposed to evidence the existence of this non-existent money, the Bank of England, on the security of the Government, will re-lend to the holders 95 per cent of the amount mentioned on it

What is the meaning of it all, and what are we persuading ourselves that we are really doing?

It is said, of course, that behind it all is gold But that is a pure fallacy. A

moment's reflection reveals the fact that there is not £350,000,000 of gold behind the War Loan. It is not as though the bonds had been bought from the Government as postal orders are where money is deposited and paper received The bonds have been issued against rows of figures, the power of which exist only so long as we have an unquestioning belief in the stability of our national institutions, and when that fails the paper and the figures are inoperative.

As was shown in the first chapter, a sharp lesson was administered on the declaration of war. Up to that point the fiction of the gold behind the paper was conventionally believed, but in the early days of August when the endeavour was made to get that gold the banks were closed! They were unable to fulfil the contract which subsists between banker and client to pay gold on demand, and they had temporarily to suspend operations. The gold for which the demand had set in was never found, but in its place paper was served out, which

the banks had either *to buy from the Government or receive from them by way of loan on which interest was charged* So far from the all-powerful gold being able to do its work and sustain us, it absolutely broke down, and had itself to be supplemented by a paper currency. Its strength was but that of a reed, which gave way before the first onset of the blast. That which really supported us was the belief in the stability of our national institutions—that and nothing else—and directly that belief fails the shutters of the banks will again have to be put up.

It is not here contended that this belief is not sufficient. The whole point contended for is that it is *all* that is sufficient, for if at least 97 per cent of our everyday financial transactions are carried on in this belief, the insignificant margin of gold about which we worry so much, and which gives such anxiety to Sir Edward Holden, could be dispensed with, and a paper currency consisting of *actual* money, and not phantom money (as is the case with the credit system), *could* be adopted.

Before leaving this aspect of the subject, the reader is asked to direct his attention to the half-yearly bank accounts which were issued by the Joint Stock Banks in the early weeks of the year. Take that of the London City and Midland as typical. In the balance-sheet of that bank Sir Edward Holden carried out his previously expressed threat that he would disclose the amount of gold his bank held, as distinguished from that deposited by it at the Bank of England. He revealed the fact that the London City and Midland Bank had actually available in gold coin in their bank £8,000,000, and at the Bank of England £25,196,458 (or together £33,196,458) wherewith to repay the £125,000,000 due to current and deposit accounts shown on the other side of the balance-sheet! It is not suggested that this is not sound, but the reader should ask. On what do the customers rely for repayment of the £92–93,000,000? On gold?

From what has been already said it will be apparent that the reply to the last ques-

tion is No, and the reply to the former will gradually appear as the argument develops

The fact is that in consequence of this obsession regarding gold, and the fact that the nation has tied its currency to a commodity, we have gone entirely astray in our banking and commercial systems, and the events on the outbreak of war must surely show the community the very drastic alterations that are needed if we are to place them on a sound footing.

The whole object of this book is not merely to advance destructive criticism against the present order of things, but, after indicating where the weakness lies, to show the lines along which the complete reconstruction must take place.

CHAPTER III

THE FUNCTIONS OF CURRENCY

IF the errors of the past are to be understood—and it is only by understanding them that a sound reconstruction can be followed—it is necessary to obtain a clear conception as to what is the value of, or necessity for, a sovereign. The deductions drawn from the statements which follow also necessitate the answer to this question being fully understood. Much that is elementary will have to be said, but it must be said for the purpose of developing the position completely.

The function of a currency is to facilitate exchanges of one commodity, or service, for another. Without its use there is left only the cumbersome method of barter. Barter is the first stage in effecting exchanges, and

was adopted when primitive intelligence had not been sufficiently developed to appreciate the assistance which a currency gives.

The method of barter is to exchange goods for goods; but any small advance in civilization quickly demonstrates that this is an almost impossible procedure where exchanges multiply in consequence of increasing industrial activity. Resort is then had to the simple expediency of a currency, in which the values of all things desirous of being exchanged are expressed.

Various commodities have served the purpose, and when the contrivance first came into use it might have been of no real consequence what was selected for the purpose, so long as it was something capable of uniformity, of convenience of carriage, and of sufficient extent in quantity to provide for the needs of increasing exchanges. But as civilization advances, exchanges increase, and mutual trust and interdependence develop, the question of what this medium should consist becomes a very much more important one, and the qualities just men-

tioned must find their reflection in the currency adopted.

There are reasons, and may be very good ones, why gold was adopted, and which served their purpose at one period. There are still more weighty reasons why it should now be discarded.[1]

But whatever the substance selected may be, there is only one prime necessity it must be capable of satisfying. It should at all times, and under all circumstances, correctly measure the value of things which require exchanging Their value should not appreciate or depreciate in consequence of the abundance or scarcity of the currency or the material composing it. That is to say, the medium of exchange must not be a restricted article or valuable in itself as a commodity. If it possesses either of these properties, it has an inherent disability, for if from any cause it becomes restricted when the demand for exchanges is increasing, its value (or more correctly, its purchasing power) must

[1] This point will be further discussed in Chapters VIII. and IX.

rise. If, on the other hand, it becomes too abundant, its purchasing power will fall.

There should be some automatic indication as between the medium of exchange and the things to be exchanged, to reveal when the medium is in excess or otherwise, so that the supply may be diminished or increased, thus maintaining the relative intermediate values unaltered on the average.

In our present currency arrangements there is nothing which in any way regulates the issue of currency. So far as coin is concerned, it is open to any one possessing gold bullion to take it to the Mint and demand its conversion into coin. So that, as it depends upon individuals, there is no conscious regulation operating.

Does any regulation, then, exist of the issue of credit currency (cheques)? Broadly speaking, none at all which has any relation to the needs of exchanges.

A banker manufactures credit currency with one eye on his customer and the other on the gold imports. If the latter be large, he is very accommodating to the former,

and "money is cheap." If, on the other hand, the gold returns are low, he draws in his credits, and money is "tight" or "dear." He can flood the market, or he can put an embargo on it; and he adopts either, not for the accommodation of exchanges but for *his own* profit and safety.

Hence it comes about that prior to the war the purchasing power of a sovereign (gold) was only about 16s. Why is this? Because (again speaking broadly) the importations of gold had been large, and this had given bankers the concurrent ability to bring too much credit currency into existence. That is to say, currency was cheap, so that its purchasing power was low, which implied high prices.

If, under our present system, there were any conscious regulation of the issue of currency in accordance with the demand for exchanges, we ought not to have been in the situation which had developed—viz. that the sovereign had become the symbol of a falsity. Professing to do the work of 20s., it was doing only that of 16s, and

since the war it probably has been doing no more than 14s. Some subtle form of robbery in consequence goes on, which comes home more closely when the circumstances are applied to the payment of labour.

Employers contract with a man to pay him 30s. per week for his labour services, and consider their part of the bargain satisfied when they have handed him 1½ sovereigns. But the present purchasing power of these coins is about 21s. In fulfilment of the contract, and in justice to the man, he ought not to suffer this depreciation. Unintentionally, the man has been robbed of 9s. in consequence of the unregulated condition of our currency. And this is exactly where the shoe is pinching so hard to-day. This is the seed which is producing so abundant a crop of labour troubles and unrest. But more of this hereafter, it is only necessary now to point out the fruitful cause of the trouble.

The question will be asked: Is there any means by which a currency could

be automatically regulated, so that it shall neither be below nor in excess of the requirements of exchanges?

The design of this book is to show how this can be done, and why it should be done; but before passing to a discussion of the natural economics on which the theories rest the reader is asked to review the points already advanced.

These are —

1. The fact of exchanges.

2. The primitive method of effecting these by barter, and its failure when exchanges become extensive.

3. The necessity of a currency to facilitate exchanges.

4. Currency is nothing more than a medium of exchange.

5 In order to keep prices steady the currency must not be a restricted article or valuable in itself, as with the increasing desire to make exchanges, it should at all times be capable of being readily increased so as to be sufficient for the work demanded of it.

6. Owing to the restricted and valuable nature of gold, it is unable to fulfil these conditions, and this is evidenced by the supplementary currency created by bankers in the form of credit, the symbol of which is a cheque.

7. That no conscious regulation of the currency is at present in operation in relation to exchanges.

8. In consequence, owing to the excessive currency in circulation, the purchasing power of gold has fallen—i.e. prices have risen—showing itself in the practical form that a sovereign before the war would only buy 16s. worth of goods or less.

NATURAL ECONOMICS

CHAPTER IV.

THE FOOD BASIS

HOW, do exchanges arise? To answer this question resort must be had to things elementary from the dawn of civilization.

The prime necessity of man is food. Whether he be classified by zoologists as *Pithecanthropus Alalus* or as *Homo sapiens*, whether he be barbaric or civilized, he is faced with a necessity which knows no compromise, which he cannot shake off. He must have food.

At first he is the wild man of the woods, tearing down fruit from trees, or with his savage strength digging up the edible roots of the primeval forest. For this purpose his senses are sharpened to the highest degree. The necessity of food relentlessly drives him on, gives him no rest.

Next, in his tribal capacity a step farther is gained. He is the huntsman and husbandman. His powers become organized, but his education still proceeds along lines chiefly in one direction—the acquisition of food. Whilst hunting opens a way for him to acquire this prime necessity by the chase, he learns in another direction how to husband the powers and resources of Nature by the sowing and collection of crops. The art of husbandry delivers him from the precarious hand-to-mouth existence of the savage. He learns not only how to grow food, but how to store it. Indeed, in the end he does not follow the chase for food, but only for sport and pleasure. It is whilst acquiring these arts that he discovers a secret of Nature which revolutionizes every idea that has gone before ; and it is, perhaps, not too much to say that the application of this discovery is the first definite step out of savagery towards civilization.

He finds that Nature is not merely bountiful but prodigal in her liberality

towards his efforts to understand her. In return for the single seed he had planted and cared for she gives him eventually a hundredfold. Such lavish rewards surpass his wildest dreams. In the brief moment when his struggling intelligence grasps this fact his primeval insecurity has gone. The tenure of his existence, so far as his food supply is concerned, is now absolutely secure. His weary steps no longer traverse the forest track in search of more fruits, nor does he struggle with the thick undergrowth of roots. He cultivates the earth outside the door of his rough hut, and by wooing Nature instead of handling her with violence finds that it is possible to accumulate his food within easy reach of his habitation.

The relief thus granted from the relentless *quest for food* affords him brief opportunities to fashion for himself—in however rude or rough a manner—those primitive articles which give to him the first taste of the comforts of life. The bark of a tree may have suggested the material for the

first shoe, to be improved upon later by the adoption of the skins of animals killed in the chase. Rough utensils were made from the growing calabashes which abounded in profusion in the forest. The plaiting of grasses may have been the first covering for his body, to be presently superseded by animal skins, cut and fashioned according to his fancy. But all these things he had to do for himself in the hours not occupied in maintaining that arable plot of ground where his life's capital was being produced. However comfortable the primitive articles which he fashioned made him, they were always of secondary importance to the growing of his food. At a pinch he could do without comforts, but under no consideration could he do without nourishment. Food, food, food was the persistent call, demanding the first claim upon his attentions and efforts. When that was satisfied he could, if he wished, turn his mind in other directions, but not till then.

Rude and misshapen as the first comforts of life he made must have been, it was

food security which gave him the opportunity to adopt them.

But the delight of Nature—the bounteous mother—is to display to those who will respond to her call the potential wealth which lies in her ample bosom, and to lavish her rewards on those who prove themselves worthy of her confidence.

Having found that he had discovered her secret, she proceeded to "draw him out," and by many an artful suggestion showed him that not only could he grow his own food, but that by doing so, and with the help of her bounty, *he could procure a surplus* over and above what he wanted for his personal use.

At first his primitive dullness did not appreciate her meaning. His land, he observed, brought forth sufficient for his needs, his wants were amply and easily satisfied from its fruitfulness, and any surplus not required was left to rot and perish. But it is not for long Nature did not intend that this child of her fancy should miss the lead she wanted to give

him to place him in advance of all others of her creations—he the man, the latest and most favoured product of the cosmic forces.

This *surplus* of food, what was he to do with it? Obviously, it was of no use to him merely as a surplus, for in that form it would only spoil and perish, and there would be no necessity for him to accumulate it merely for the sake of so doing, seeing that Nature was always ready to give him sufficient for his own needs and did not require that he should store up a surplus for that purpose. Unless, therefore, he could put this additional power to produce into action it would avail him nothing; he would be destined to remain on the ladder of progress just where he was—viz. a producer of food for his own immediate wants and nothing else, and further development would be impossible to him.

But he heard the mystic suggestion. Not as a passing whim or without settled purpose was the indication given to him of the potentiality which lay in that surplus

if only he could cast about and put it into action.

Without knowing it, he is now approaching the outer gates of the confines of civilization. If he do but direct this power which he dimly discerns into the right channel, he will at once pass over the line which separates barbarism from civilization. A new development of life will lie before him, far exceeding in its possibilities any which his primitive mind could possibly have imagined, if only he will do the right thing.

Gradually, little by little, by stages, sometimes rapid, at other times more slow, man felt after and eventually entered into that enormous field of latent possibilities which was wrapped up in that surplus of food which his energies were capable of winning from Nature. The magnitude of the results obtained can only be grasped by comparison; and to appreciate them the primitive footgear must be compared with the glacé kid shoe built according to the latest Leicester model, the grass apron with the

Worth gown, the hollowed-out tree with the modern trans-Atlantic leviathan.

The difference is the result of the creation and application of that surplus food. How the first glimmerings of the vision dawned on the primitive mind can now only be a matter of interesting conjecture or fanciful speculation, but in some way the conclusion must have been reached by him that there were those of the tribe who had less aptitude for husbandry and a greater one for making the primitive articles of comfort other than food, and that if time could be continuously devoted to their production, skill would develop and these things would be made more expeditiously and with greater efficiency for the benefit of all. But time had to be found. Nature was inexorable in demanding that the working hours should first be devoted to the production of the essential food, and the only way to find the time was to create what has since proved to be the greatest factor in civilization—viz. division of labour. The incipient manufacturer was

induced to give up his food-producing and devote his time entirely to manufacturing, during which time he was kept alive with the *surplus food* of the man on the land.

The transition of the simple life of man in its early agricultural and pastoral form to the complex existence as we have it to-day would have been impossible, had he been content merely to produce sufficient food for his own wants. It was his capability to grasp the latent power which was stored in the *surplus production*, and the use to which he put it, which changed the entire direction of life and for ever separated him from the rest of creation. This power gave the thrust which set the wheels of the manufacturing machine moving, and made the first great sub-division of human labour possible—viz. the separation of food-producers from other workers. Civilization lies four-square on this bed-rock fact. Industries could not arise nor become an integral part of civilized life until the primitive food-producer realized that by means of his surplus food

eventually to be arrived at as to how many measures of food should be given for so many canoes or robes. At first this, no doubt, was effected in a rough-and-ready fashion, but eventually and gradually it yielded to an organized idea, and the great economic Law of Value arose.

With considerable certainty the conjecture can be hazarded as to the lines along which this law was evolved. In the first place, the food-producer, in order to acquire the surplus of food wherewith to support the manufacturer whilst he was devoting himself entirely to making the comforts of life, had to work at least twice as hard as if he were only producing food for himself; for he had to cultivate not only sufficient for himself, but he had also to acquire that surplus wherewith to feed the man devoting himself to canoes. In the second place, a sufficient inducement had to be held out to the manufacturer in order to get him to leave the soil

and the certainty which attached to it of always being able to support himself from its produce, and devote himself entirely to other work, with all its unknown precariousness and uncertainty

To demonstrate this, let it be assumed that thirty days were occupied in making a canoe. It is clear that any one continuously devoting themselves to its manufacture for thirty days would have to be fed all the time, and this necessitates a food-producer having to raise sufficient *surplus* food wherewith to feed the canoe-maker during that number of days. These thirty days were not absorbed in merely hollowing out a tree trunk. The first few days had to be spent in finding the right kind of tree, and then in transporting it to the place where it was to be worked upon Then some rough process of burning or hollowing out would have to be gone through. For this, and for the next process of tapering the ends into the required shape, the right sort of flints would have to be found and chipped, in

order to secure as good an instrument as possible. After that, the inside may have been covered with some animal's skin, and this would have to be trapped. Thongs, wherewith to sew parts together, would have to be cut; or perhaps some known fibre was remembered which would better suit the purpose, and two or three days in the forest might have to be spent before it could be found.

The age of transportation, of storing goods, and the almost infinite sub-division which labour has since undergone and to which our age is so accustomed, making life easy and possible, had not then arrived What can now be transacted in a few hours might then have taken as many weeks.

In the end the canoe was finished, but at no time during the process of making it was the manufacturer able to work at food production, and consequently he had to be fed with the surplus food of the food-producer. For a man devoting himself entirely to the making of canoes cannot

simultaneously be working at agriculture. Such devotion is possible only on the condition that some one will feed him during the process. He is relieved of the work necessary to the production of the food for his support in consideration of his application to the manufacture of canoes; just as the food-producer, in consideration of his parting with his surplus food, is relieved of the work of making his own boat.

The first transaction may have resulted in the canoe being handed over in return for the food consumed during the thirty days, but on subsequent reflection the maker saw that the relative positions of himself and the food-producer had altered. The latter was better off to the extent of a canoe, but the former had nothing. It may be objected that he had received his food for thirty days, which is true; but upon this no value can be placed at all, for by his original right as a food-producer he could have maintained himself for the thirty days by the expenditure of

the same amount of labour in growing his own food as in making the canoe. He could always have obtained his food without bothering about the canoe. The thirty days' food he has consumed, then, does not represent the value of the labour he has put into building the canoe. Further reflection leads him to see that the true value of the canoe is not merely thirty days' food (for that is always his because of his initial right as a food-producer) but another canoe As, however, the food-producer cannot give this, but can only offer its equivalent in food, the amount of food he must part with wherewith to equalize the transaction is at least an additional supply of food sufficient to last for thirty days, during which time the canoe-maker can, if he likes, support himself whilst making another canoe. When sixty days' food is given for the canoe the value in exchange is equally balanced. Both parties have their food for thirty days, to which they are, as free men, inherently entitled; one has

a canoe and the other thirty days' extra food. That is to say, the value of the canoe in a state of freedom is at least sixty days' food.

However complex a situation may subsequently be developed, however far removed from the food basis and unconnected with food production the ultimate human activity may seem to be, the fundamental position of the food-producer never changes. He is the bed-rock on which all subsequent manufacturing activity is founded It is always the canoe-maker who will go in search of the food-producer, never the food-producer who searches for the canoe-maker Or, as the homely Russian proverb has it · "It is the belly that goes after the food, never the food which goes after the belly"

Food is invaluable; but it puts a value on everything else.

Test the foregoing generalizations on value by considering them as applied to modern conditions. For instance, consider the professional man, say a doctor.

What is the motive power which enables him to exercise his skill? Food. He is capable of carrying on his practice for no other reason than that a food-producer exists somewhere who has a surplus of food over and above his own requirements If it were not so, the doctor and his abilities would cease to exist, he would starve unless he proceeded to grow his own food, when he would, for the time being, have to cease to be a doctor. He may have the finest practice in the world, bringing him in an income fit for a prince, but unless there is a food-producer somewhere with a surplus of food, all his skill, his large fees, his more than substantial balance with his banker, his well-appointed establishment at home, will avail him nothing until he can obtain some of that food wherewith to keep his vital energies going and sustain his life.

Reflect for a moment on the value which is accumulated in a doctor. He cannot be produced in ten minutes. It

probably takes seven years to fashion him, as it were, in the raw state. It may take three times that number in which he is to draw to himself that experience which matures him From the moment when he takes his textbook first in hand as a student he has to be fed; and all through the piece he has to be fed. But it is not merely the food which he personally has consumed which alone consitutes his value. The accessories which surround him and are part and parcel of his skill have been the result of food-producers willing to raise a surplus of food whereby other men could leave agriculture and apply themselves exclusively to study and the production of textbooks (not merely the printing of them, but the *thinking* of them), of surgical instruments, and the thousand and one other things which assist him in his beneficent work. All these are focused in the doctor in the form of food values at compound interest.

Or, consider again a piece of machinery.

How has it been possible for that to exist? There is the engineer who made the design, with a food-producer at his back keeping him alive whilst he was doing it The steel bars fulfil their purpose only because men toiled at a blast-furnace, and all the while had to be fed Before the liquid metal was poured into the moulds men had to convey the raw ore from the pit's mouth, during which operation they had to be fed. Prior to the raw ore being carted from the mine men had to dig it out of the earth, and every few hours they had to be fed. There in the mine is the last rung of the ladder—Nature—ore in its natural bed in the bowels of the earth At the other end is the highly complex thing called a steam-engine Between the two are a vast number of operations, assisted by a still vaster number of accessories, which brought the engine into existence, none of which could have been possible but for the fact that there exist somewhere food-producers with surpluses of food. Test

any link of the chain between the raw ore and the finished product, and every one rings true to the existence of a food-producer. Dissect it, analyse it backwards and forwards at pleasure, the door of the man on the land is at length reached. The engine is an accumulation of food values.

Do not let it be supposed that the generalization now being insisted upon is being in any way strained to produce a certain effect. Surplus food is the great invaluable asset of civilized mankind. Take it away, and the edifice of value falls to the ground. Put it in, and the click and rattle of production is assured; value once more appears, and clothes the products of human energy.

From which considerations the conclusion can be drawn that of all things which in any given country should be as free and open to all as a national birthright, the right of a man to produce his own food is by far and away the most important. As present circumstances are,

the fact has to be deplored that of all industries, that which is most hampered, most subject to restriction, and, in the majority of cases, absolutely impossible, is agriculture. How this has come about will be presently pointed out.[1] At the moment it is sufficient to state the fact that though broad acres and enough suitable for the purpose lie within the coastlines of these islands, resort is had to land thousands of miles away for the essential food—wheat. To reply that "it does not pay" to cultivate it is not sufficient. That is purely a question of economics, and it surely can be nothing short of a *reductio ad absurdum* to have at our very doors the land suitable for growing wheat, but because "it does not pay" to do so, to go ten thousand miles away for its production, to say nothing of the shipbuilding and railway construction necessary for its transport.

The anomaly is not due to Nature. The wheat seed will give fiftyfold whether

[1] See Chapter XI.

it be planted in England or the Argentine. The fact is that the real reason why it is not grown here is due to the bankruptcy of accepted economic ideas

CHAPTER VI

CAPITAL AND WAGES

It will not have been forgotten that in primitive times man did no more labour for his food than was necessary to take from Nature that which she supplied and freely offered. The amount of exertion involved was often not more than merely the putting out of the hand and plucking the hanging bunch. It hung there by no effort on man's part. He took no part in inducing Nature to make this provision for him. Her free gift of food to him differed in no way from that which she provided and offered to all her children. Their food is always to be had for the mere taking.

But the partiality of Nature for this, the latest product of her fertile genius, was marked and unmistakable. To no other

branch of the animal world did her fancy lead her to reveal so much of the power latent in her bounty. Every bird finds its own food, and practically every bird builds its own nest. But birds have never been known to develop their nest-building proclivities beyond their present capacities, by laying aside a surplus of food with the object of creating a division of labour amongst their own species for the improvement of nests. But with man it has been otherwise He alone was to reach out into the vast unseen world of possibilities into which his inventive genius was to impel him, but not a step could be taken until he had been capitalized by food.

The food which he took from the overhanging bough was neither "capital" nor "wages." It was the free gift of Nature, and so long as he relied only on that, he and barbarism were closely allied and inseparable. There was no possibility of his attaining any higher development or becoming entitled to the distinction of civilization. But directly he left this

hand-to-mouth existence of the forest, and applied his labour to cultivation, he made the first step forward, but beyond making his food supply a certainty it left him in much the same relative position. What it did for him was to redeem some of the time which was otherwise spent in searching for food, so that he could make rough comforts for his domestic use.

By directing his labour still one stage farther, and raising a surplus in addition to his own food, he altered his entire status by becoming the true capitalist, and thus allowing the subsequent fundamental subdivision of labour to take place.

Surplus food, then, is capital. It is the product of agricultural labour, and as such is the *sine quâ non* of industrial labour.

In the order of development it will be noticed that agricultural labour precedes capital, and, after the great subdivision of labour has taken place, capital precedes industrial labour.

Allow this sequence to flow freely through the mind, and it becomes the golden thread

by means of which the countless labyrinths of subsequent development can be threaded with ease, but without which the whole process appears a hopeless tangle, incapable of being straightened out.

The true capitalist is the man who produces surplus food. Not, be it observed, the man who produces food, but *surplus* food (for economically there is an essential difference between the two), which surplus is used to keep alive the other-worker who does work other than that of food-production.

It will, no doubt, be objected that this definition of capital is erroneous, as, according to the orthodox textbooks, capital is defined as "that portion of wealth which is set aside for the production of more wealth," and in practice this has come to mean definite sums of money. But the error of this popular view can be easily tested. A man may be in possession of "capital" to the extent of £10,000, but unless he can obtain food his £10,000 will capitalize nothing. And if he finds a

supply of food which will enable him to spend the £10,000, what will happen to the money? It will be used chiefly, if not altogether, in the purchase of labour and labour products, and the first thing which labour will do with the portion of the £10,000 paid to it will be to exchange it for food in order that the vital energies may be kept up, and that portion which is parted with for labour products is paid away for the food values accumulated in those products. So that, unless labour can immediately exchange for food products that part of the £10,000 it receives, labour will cease, and again nothing is capitalized. It must be clear, then, that the man who raises a surplus of food for other-workers is the true capitalist, for he is the man possessed of the "head, source, or root material, the *caput vivum*,"[1] which alone is able to permit of the separation of specialized workers from the soil, and with it, and by their instrumentality, to set in motion the machinery of industrial production.

[1] Ruskin.

Turning now to wages, the consideration of these follows the same natural development as that of capital, and it falls under the three divisions previously noticed with capital.

In the enjoyment of his forest life, when freely supplying himself with food from Nature's storehouse, man could not be said to receive any wages. The word implies "reward," and the life which he sustained by means of Nature's free gift was not a reward but a right. If during that state of existence he acquired anything which could be called "wages," they were those rough comforts rudely fashioned for himself out of the grasses, the bark of trees, or the gourds which abounded in the forests. These were the "rewards" of his labour which he acquired after he had fed himself, and as such they were his natural wages.

When he arrived at the second stage of development, in which he deliberately put labour into cultivation, any wages he might then have acquired were still those articles

of home manufacture by means of which he made life more comfortable, but which he could not make until the food question was put beyond any chance of failure. To whatever extent he could make his life more comfortable after he had secured his food, just to that point would his wages rise. But, as has already been seen, skill could not develop to any great extent, owing to the intermittent application which was all that could be applied. Hence, until the great subdivision of labour materialized, wages could only be of a limited character.

In the third stage food-producers with their surplus of food have become capitalists, and, other-workers having separated from them, industrial labour commences. One of the justifications for the separation is the immense superiority with which an article is endowed when it is worked upon continuously. The food-producer now ceases to be a home manufacturer, and relies solely upon the other-worker for the articles of comfort he formerly made for himself, and which he can now obtain better finished

and better adapted in every way to his requirements

He now buys such articles with his surplus food, such food being the sustenance of the manufacturer during the course of his occupation.

But in order to induce this separation of the other worker from the soil some incentive had to be held out to him so as to bring him to sever his connection with the land and to rely wholly upon the food-producer for his food. This inducement was found in the magnitude of the rewards which his labour was able to secure when devoted exclusively to manufacturing.

In precisely what manner they were determined it is impossible now to say, but it must have developed along certain natural lines which it is not difficult to trace.

The only thing the food-producer could give was his surplus food, and the problem resolved itself into determining how much of this he would have to give for any definite article.

Whatever amount of food the other-

worker was entitled to receive, a larger amount than was necessary to keep him alive in a healthy condition was not required, as more than enough was superfluous and waste The "reward" of his labour, therefore, was not the food given for the purpose of keeping him alive. That belonged to him as a right, and was no part of wages But his wages were that share of his own productions which he could retain for his own use after he had secured his food. Or, to put it algebraically:—

Manufactures − Returns for food = Wages.

From this it will be seen that wages *do not commence* until the inherent right to food has first been satisfied. When that is done, that which is left over and above what has been given for food remains as "rewards" for labour and constitute wages.

A concrete case will make this clearer. Let it be supposed that a manufacturer of shoes could in one week produce five pairs of shoes. To do this he must provide sustenance for one week, and he can only

do this by selling his product to a food-producer. If he sells the *entire* five pairs, the food products he will obtain may be more than sufficient to keep him for one week. What is in excess will rot and perish; such excess is of no use to him. It is not necessary, therefore, to sell the entire five pairs. Two pairs may be all that is required to obtain his food, and he has thus three pairs left. These three pairs are his wages, and they are free to be exchanged with other manufacturers for *their* products. The shoemaker's wages, therefore, is that portion of his own productions which he can retain after he has provided himself with food.

The play of competition amongst manufacturers inevitably sets up improvements in the products. By the discovery of more efficient tools and other devices the shoemaker finds that in order to obtain his food he has to make larger and larger returns to the food-producer. His wages, consequently, tend to fall; that is to say, he is able to retain less and less of his own

products. If at one time he found he could obtain his food for two pairs of shoes, he now finds that a more skilful operator is offering the food-producer three pairs for the same quantity of food, and he must do likewise if he is not going to starve, and this can go on until the shoemaker (who may be unable to equalize the competition by improved methods of manufacture) has to give away his entire five pairs of shoes for his food. His wages are reduced to zero; he is now merely obtaining his food. But with the same exertion by which he has made the shoes he could have produced his own food if he had not become a manufacturer, and the inducement of higher rewards which were held out to him when he first became a manufacturer have disappeared. These having been reduced to nothing, he might as well return to his food-production, for then he, at any rate, would be master of his own destinies whilst growing his food, whereas if remaining an other-worker in addition to working for no wages at all, he is also dependent on some

one else for it—viz. the food-producer. At this point, therefore, the manufacturer will, if free to do so, cease making shoes and return to the production of food, nor can he be induced to return until he sees some way of obtaining some higher remuneration for his devotion to manufacture.

CHAPTER VII

THE NATURAL EQUILIBRIUM

LET it be granted that the great initial subdivision of human energy outlined in the previous chapters has been completed and set upon a firm foundation, and that the community is no longer solely composed of persons engaged in producing their own food, but takes the dual form of food-producers with a surplus of food on the one hand, and manufacturers with surplus stocks on the other.

Here let it be once more insisted that the latter are entirely dependent for their existence on the former, for the moment food-producers cease to produce surpluses of food and revert to their original state of raising food merely for their own wants, the position of manufacturers is not

merely jeopardized, but is rendered actually untenable

But the experience gained by the food-producer, in the easy acquisition and use of the comforts of life, tends to become more and more of a permanent character. With the productive power of Nature at his back, he will not willingly return to the former days, when his rough comforts were obtained by what exertions he could summon after the cultivation of his food had been attended to, and were necessarily limited in extent and finish for want of time and practice. Now, in exchange for his surplus food, he can readily obtain robes, chairs, tables, basins for the supply of his domestic wants, whilst bows, arrow-heads, hunting knives are ready for use in the chase.

He has, in fact, discovered himself to be the great capitalist, the true buyer. The demand which keeps the manufacturer busy comes first from him. He is the hub of the industrial universe, the indispensable factor of industrial expansion.

As time goes on he sees, to his great

satisfaction, that in consequence of increasing skill in manufacturing and the resulting competition, which is set up, the *purchasing power* of his food gradually rises In the early days of the great separation sixty days' surplus food would obtain only one canoe Now the same amount will also obtain half a dozen pairs of shoes, a winter's robe, and a dozen arrow-heads His fields are no larger, he has put no greater amount of work in than he did when he acquired the canoe, but the purchasing power of his surplus food has risen; he can obtain more for it now than he could at first Hence his position in life is gradually on the up-grade

Thus far the food-producer What, however, has been the experience of the manufacturer working for wages? As skill developed, and labour became more and more subdivided, he advanced to a point similar to that of the food-producer His initial sales were made direct to and solely with the food-producer in order to obtain the necessary food wherewith to keep him-

self alive When this had been provided he found himself possessed of a surplus of manufactures, which were his rewards or wages. The more of these he retained over and above what he had to part with for his food, the higher were his wages. This surplus he used for the purpose of making exchanges with manufacturers of other articles, and he thus acquired for himself the comforts of life. As competition between manufacturers increased, it tended to lower his surplus, as he had to give away more and more to obtain his food, and when this competition was found to be so insistent as to become unbearable, he always had at hand his alternative. He can return to the land, and with the same exertion produce his own food

This natural equilibrium came into play even before the point was reached where the only return the manufacturer could obtain for his goods was his food. For in the state of freedom which it is assumed prevailed he was released from the oppression of working for no wages by turning

to his alternative—the land What disaster would come upon him had he no alternative can be readily surmised The rest of his life would be one long, strenuous, and unsuccessful fight for wages wherewith to obtain the comforts of life, and he would have to be compulsorily kept there in order to submit to it. But whilst conditions of freedom obtain the natural equilibrium works and adjusts the economic balance in a way which no artificial methods could rival.

Remove that equilibrium, and the slums and misery of our great towns (to look no farther) are eloquent of the disaster that results.

CHAPTER VIII

THE RISE OF CURRENCY

AN easy transition of ideas now leads to the next point, obvious in itself and one which it cannot be doubted was actually followed by advancing civilization, namely, exchange by means of currency.

It has already been shown that exchanges between food-producers and manufacturers were first made by way of barter. So many measures of food were actually given for so many pairs of shoes, or for so many canoes But when presently robe-makers, hut-builders, arrow-head manufacturers, and a hundred others appear on the scene, barter was found to be too cumbersome and impossible a method of exchange, and broke down from sheer weight of these defects. Some device had to take its place

which was capable of effecting the required exchanges more expeditiously, and at this point a currency appeared

Some uniform token was adopted in which the value of both sides of the equation might be expressed—that is to say, of food on the one side and manufactures on the other, so as to avoid the mental complexity which necessarily must arise when a thousand and one different articles have to be assessed at some food value.

In passing, let it be noted that the abandonment of barter and the adoption of a currency indicates a step forward in moral progress. Barter demands the actual things themselves being produced at the time the exchange is made. The quality of mutual trust has not yet come to birth It originates in the great subdivision of labour when some men ceased to produce their own food. But the use of a currency denotes an immense onward step in the same direction. Of itself, currency should be only a token—a repre-

sentative of something which is not in evidence at the time, and when this is so, then by the general agreement that *it* shall be accepted, instead of the actual thing itself, the rise and spread of mutual trust and dependence is revealed.

The ease and expedition with which exchanges were accomplished by the help of this common denominator were so apparent that the device only needed a fair trial to prove its complete success, and it would have so continued if the nature of its quality as a token had not been lost sight of, and regard paid more to the thing itself than that which it represented.

Of what, then, was it the token? What *did* it represent? It was a token of and represented the purchasing power of food. The power previously resident in food became transferred to the common denominator [1] If a canoe had to be purchased by a food-producer, instead of giving the builder the required quantity

[1] No mention has yet been made of what the currency is to be composed. This will appear as we proceed.

of food, he would first have to take his food to the market-place, and there convert it into currency. Having done that, he would then transfer so much, or all, of the currency obtained to the canoe-maker for the canoe, who, in his turn, would have to exchange in the market the currency received for it in order to obtain the necessary food.

That was, and is, the sole function of currency, and we are not concerned at this moment with anything more or less in regard to it. It was a token in exchange of the purchasing power of food. Henceforth, instead of constantly regarding surplus food in the terms of manufactures, and manufactures in the terms of surplus food, the currency became the common denominator in which the purchasing power of food was inherent. Thus, if the purchasing power of food, as expressed in currency, was low, the value of manufactures was high. If the purchasing power of food was high, the value of manufactures was low.

Now, it will be apparent that when all values had thus to be expressed in currency, a distinct relationship was set up between it and the things to be exchanged. In order to avoid using any complicated language, this relationship is best explained by an illustration

Here are four persons, each possessing one unit of currency (let it be a sovereign). Their average consumption of wheat is one quarter, and the average price of wheat is 20s per quarter. Each one can exchange his sovereign for one quarter of wheat so long as each has one sovereign, or provided their numbers do not increase. But if each of the four persons withdraw 10s. of their gold for the purpose of buying chairs, that amount is withdrawn from the exchanges which have to be made for wheat. Only two sovereigns will now be left to do that work, and as each person would still require the same average amount of wheat, only 10s. per quarter can be given for it The purchasing power of the sovereign has risen (i e the price of the

wheat has fallen) in consequence of the limited supply of currency available. In order to keep the price of wheat uniform at 20s. during the time that a portion of the currency was absorbed in the purchase of chairs, an addition of two sovereigns would have to be made as indicated by the fall in the value of wheat. When this was done, one quarter of wheat would again exchange for one sovereign.

A precisely similar effect would be reached if the number of persons were doubled (that is, if the population increased) and the amount of currency remained stationary, the wheat requirements of the eight persons being still a quarter each; the price of wheat as expressed in currency would fall to 10s, whilst the purchasing power of currency would rise.

From these considerations it is obviously necessary that the currency should not be of a restricted nature, but one capable of expanding with the ever-increasing desire to make exchanges; for, as the aggregate number of exchanges increase,

the token must increase likewise. If it does not, the competition which will exist in market-places for its possession will render its acquisition more and more difficult, and the only way to get it from those who possess it will be for food-producers and manufacturers to give more and more of their products, thus falsifying the token, for then as now it will not be representative of the purchasing power of food, but of its own value as a commodity.

Going back to the foregoing illustration, it will be seen that one portion of the currency—the essential portion, it might be called—is devoted to making *purchases* by food-producers from those manufacturers who supply them with their comforts. The other portion is devoted to making *exchanges* between manufacturers themselves of their surplus stocks. In reality, of course, there is no such artificial division, but it is merely indicated here for the purpose of assisting a clearness of mental conception

The currency necessary in the first in-

stance wherewith to exchange food for manufactures becomes depleted and inadequate when the desire of manufacturers to exchange their stocks with each other arises and makes itself felt For, as has been seen already, the competition which will exist in markets by manufacturers trying to get currency for the purpose of effecting the exchange of manufactures will withdraw it from food-producers desiring to make purchases. This transference will eventually become manifest, for, unless it be corrected, the scarcity which exists for food purchases will be reflected in the price of food as expressed in currency All this may seem very simple and obvious, but notwithstanding, it has a tremendous bearing on the discussion which is ahead Let it, therefore, be asserted with growing emphasis that currency is but a token, and that it is a token of the purchasing power of food. It is not wealth, nor is it a token of wealth It is a token of the purchasing power of food—a food token As contrasted with the system which

obtains to-day, it may be said that just as the present efforts are to put gold behind paper (an impossible task), a valueless currency would, in effect, put an average wheat price, and, therefore, a sufficiency of wheat behind paper, and in this effort *could be completely successful,* for if only the Government would regulate the supplies of currency necessary, it would be found that merchants would regulate the supply of wheat

NATURAL ECONOMICS

THEIR APPLICATION TO-DAY

CHAPTER IX

CURRENCY—CIVILIZED OR BARBARIC?

IT has now been shown at what point currency arises, why it comes into being in the economic scheme, and on what it is based. Having outlined what may be called the "natural" economics of exchange and currency, the objection may be forthcoming that "things do not work like that nowadays." Unfortunately, agreement must be conceded, and the reason advanced in reply is that development of civilization having proceeded away from this natural base, the resulting wrongs and injustices are but the outcome. At the risk of wearisome reiteration it is as well to again glance backward over the path so far traversed. The fundamental division of labour occasioned the economic separation of food-producers from

other-workers, and the industrial energy which is thereby initiated and made possible renders the previous system of barter untenable. Under the influence of this subdivision the things to be exchanged grew with such rapidity, and became so diverse in their nature, that some device had to be found for effecting the exchanges other than the cumbersome method of barter.

The factors in the situation, however, remained the same—viz. food on one side and other-work on the other—the latter existing only at the will of the producer of the food. The value of other-work was still based upon the amount of food given for its production, and when, on the rise of currency, values were no longer expressed in terms of the actual articles themselves but in that of money, currency values *should* have remained nothing more nor less than a continuation of those food values under the name of the common denominator.

A unit of currency was nothing more than a *token* with which to conveniently note the value of various commodities as

expressed in food, it being a condition of true civilization that that value should steadily fall. That which surplus food did when there was no currency, should have continued to be done when a currency was adopted. The presence of currency should not alter the previous situation that existed when actual food was exchanged for something else. In other words, when the currency unit is exchanged, that which should be obtained in return are *in fact* all those advantages in commodities (which, as mentioned above, should steadily increase) which otherwise would have been obtainable by actual food. In these circumstances the medium takes to itself and represents the virtues which likewise reside in the food.

From what has previously been said (Chapter VIII, page 95) it will have been seen that there is a direct relation existing between exchanges and the amount of currency which may be in circulation at any one time. Useful and valuable a contrivance as it has proved to be, only experience could have shown man the possible

complexities to which it was capable of giving rise and the tricks and vagaries it would play with the social organism as the subdivision of labour and industrial energy proceeded, if the possibilities for good or ill resident within it were not adequately apprehended.

One of the most interesting and singular studies which could engage the attention of the philosophic historian would be to explain how it has happened that with all the discernment, the acuteness, and refinement of mind which has been developed in the human species since barbaric times, civilized man has failed to observe and to correct the fundamental mistake made when he chose a commodity to do the work of currency.

In the early days when the contrivance first arose the error was to be excused. With no precedent to guide him, he had to make the venture, in the first instance, in the dark. But as experience grew, and the wealth of organized thought and scientific observation were brought to bear on other

phenomena, it is surprising that he has proved almost unteachable on this particular subject. It has not been for want of warnings. Catastrophes, whose shattering effects have increased in intensity in proportion to the advancing complexity of society, have failed in their purpose. Up to this very hour, by his passionate devotion to his golden but barbaric currency, he still jeopardizes and periodically brings into constant peril of destruction that civilization which has been so painfully and laboriously built up. Under its influence not only does individual prey upon individual, and classes of society upon each other, but the ramifications of the mischief reach their climax when, urged by its baneful stimulus, civilized nations devastate one another. And it is difficult to see how, until the ultimate truth be accepted, the progress (?) of civilization can be anything else but a repeated series of cataclysms.

If the principles enunciated herein have any natural base or source, it would follow that the social and economic relationships

which arise out of them would be founded in freedom, and that that much-abused word "civilization" would come into its own, truly and correctly expressing the meaning which the vowels and consonants in combination are intended to convey. Just as the old Roman citizen understood the rights and privileges which attached to the words "*Civis Romanus sum*," so every member of the human family who steps over the border-line which marks off barbarism from civilization, and desires to come to the full content and power of themselves as a free unit in the natural order, would understand the rights and privileges which attach to the words "*Civis Naturæ sum.*"

But this implies that the individual units must be free, and this freedom must extend, not merely into the political, religious, or intellectual spheres but also into the economic, so that in this latter respect, as well as in the former ones, the unit shall be able to come into complete harmony with its natural environment, and be capable of living and developing that life which is

the best and highest expression of its physical and spiritual constitution.

The truth has yet to be realized that the greater part of civilization has been reduced to the position of complete economic slavery by means of the gold currency. Labour is caught in the toils of two gigantic monopolies —land and gold. So far as land is concerned, instead of it being free and open to produce capital (surplus food) to whoever will put the necessary labour into it, the circle has been so completely boxed by the fertility and subtleties of the legal mind that this, the greatest of all the productive agents, is completely shut up to all persons except those possessing sufficient gold. And so far as gold is concerned, the unfortunate being who finds himself in the predicament of being without it becomes an outcast of society, is debarred from all the privileges of civilization, forfeits his right to shelter, clothing, and the bare necessities of existence, but is permitted to be dangled by "charity," between life and death, or is handed over to the doles which

emanate from the ministrations of the relieving officer.

The most casual reflection upon our present-day civilization must inevitably force the conclusion that it does not produce that happy relation of parts which should result if the laws which govern its creation, and sustain its development, were followed and obeyed The situation was never more cleverly epitomized than by Mr. Edward Bellamy in his book "Looking Backward," in which he compared modern civilization to a stage-coach, on which a few favoured passengers took their seats high up above the dust and turmoil of the road, whilst the vast majority strained and tugged at the ropes which drew the lumbering old vehicle along.

But with what satisfaction can this state of things be regarded if the title to "civilization" be claimed?

No one will deny, except perhaps those who by fortune of circumstances have never had to step down into the cockpit of modern life, that things go forward with

strain and stress. Every year the whole body politic seems to be more completely enclosed within the arms of some unseen octopus, whose steady and persistent grip seems to be crushing out its very life.

From what does this lack of harmony arise? The submission here made is that it arises from the wrong economic thinking which has been allowed to grow up, whereby natural development has been hindered, if not arrested, by the inability of those who profess to be acquainted with the science of economics to see where their doctrines and theories regarding currency are intellectually bankrupt.

It is not too much to say that a very large proportion of the evils and injustices of present everyday life can be confidently traced to the present currency system, and until this great economic function itself becomes civilized the results obtained from its operation must continue to be barbaric, and relief from the anomalies of our social system will be looked for in vain.

It may be stated as a generalization that

freedom in other spheres was not obtained by force. The freedom obtained in religion, or in thought, has resulted from the birth and propagation of ideas which have changed the currents of thought. Similarly, it may be anticipated that freedom in the economic sphere will not be achieved by force or revolutions, but by the birth and propagation of true economics, such as find their origin in the natural order of things, and not in the artificial creations of man.

One of the first steps towards this freedom is that the average thinking man of business, no less than the average thinking man of labour, should deliberately set out to free his mind of the gross superstition in which gold, as money, is steeped. When the present-day modernist talks and writes so blandly of our freedom from superstition he surely must have overlooked this question of gold.

To any one anxious to begin the process of cutting the trammels, let him read the chapter on " Money " in Mr. Arthur Kitson's

book entitled "The Money Question," from which the following is an extract:—

Whenever we are brought into a discussion of the money question we are confronted with one great obstacle—a superstition—which has become strongly entrenched in the popular mind, what may be termed the fetichism of gold and silver So accustomed are we to associate things with their functions, there finally grows in our minds the idea of a personality belonging to the object itself, and we unconsciously ascribe to it human qualities and tendencies Thus we hear daily the expressions "good money," "bad money," and "honest" and a "dishonest" dollar Gold is called "cowardly," and is said to "refuse" to circulate, and the very acme of fetichism is contained in the expression "money talks" It is precisely this superstition which renders the money question so difficult of comprehension by the average man [1]

It seems imperative that this country, occupying the proud position it does in modern civilization, should take the initiative in leading the present so-called civilization out of the slough into which it is floundering, by abolishing gold as a standard of value and putting in its place a civilized currency resting on the natural

[1] "The Money Question," by Arthur Kitson (Grant Richards)

economic base of food values. To civilize our currency is the first step towards the reorganization which must take place, if that which has been redeemed already from the past is to be put upon any sure foundation.

How this should be done the following pages will attempt to show ; but before closing this chapter the reader is asked to note carefully the following :—

> The broad distinction between barbaric and civilized money is this, that the former is a *real equivalent in value* for whatever is exchanged against it, and the latter is nothing but *a token of value itself.* That is, *it represents value,* and is convertible into, or exchangeable for, fixed quantities of the standard locally or nationally accepted as measuring it, but is not in itself valuable. Should this fail to be so convertible the token loses the essential attribute of civilized money, and becomes worthless[1]

[1] "The True Cause of the Commercial Difficulties of Great Britain," by C. B Phipson. (George Allen and Unwin Limited.)

CHAPTER X

PAPER *VERSUS* GOLD MONEY

THE point has now been reached when the main thesis of this book can be approached at close quarters.

Owing to the restricted and valuable nature of gold, it is incompetent to fulfil its mission as a civilized currency. This incompetency necessitated the creation of further currency in some form or another, and has been seized upon by bankers to create a supplementary currency of credit (the cheque being the symbol) which, in extent, has far exceeded that of gold. In spite of the theory that our finance is based upon a gold currency, in practice it is based upon the stability of national institutions, commercial integrity and good faith, seeing that the habit of financiers is to do

without gold—to push it, so to speak, more and more into the background—so that, consequently, the vast bulk of the exchanges are made with paper, " backed " by nothing but the qualities just mentioned.

Further, the amount of credit in existence could never be redeemed in gold, for though it is said that gold can be obtained for a cheque, it means nothing more than that *some* gold can be obtained, and that only a very small proportion. The rest is credit, and has to remain so.

The issue of currency, which is strictly the prerogative of the King for the benefit of the *whole* nation, has been appropriated by bankers for their personal gain, or for that of their shareholders, irrespective of what may be the effect on the general national position; and the system in vogue, yielding to no proper regulation (only except in so far as the gold movements influence the minds of bankers to extend or withdraw credit), contributes in a very large measure to the burden which is felt by all in the general fluctuation of prices,

these being unconsciously raised when gold is relatively plentiful and falling when it is relatively scarce.

The narrow margin of gold, about which every business man at various times gets nervous and uncomfortable, does not adequately support our credit transactions, for when the pressure is applied the so-called basis crumbles away, and it is only by the return of confidence [1] that the situation is saved.

This being so, and having regard to the fact that the legal pound in Great Britain has all but ceased, having been superseded by cheque-pounds which have nothing but a fictitious and precarious connection with legal pounds, it becomes urgently necessary to reform our currency by boldly and courageously eliminating this narrow gold margin and adopting in its place a national, regulated paper currency.

Having thus stated the necessity, the question at once arises as to how, and on what principles, such a paper currency

[1] Induced in 1914 by the issue of *paper* currency!

should be issued, and what advantages over the present system would arise out of its adoption. Each of these points will be dealt with in turn, but the present chapter will be devoted to the underlying principles of such an issue.

It is as well to admit frankly at the outset that the experience of paper currencies in the past has not been a happy one. Two well-known instances of their use stand out prominently in modern history—viz. the American greenbacks and the French assignats. These two instances may always be relied upon to provide sufficient material for a universal condemnation of the use of such a currency.

But, in passing, the reader is asked to note how, in spite of the orthodox thunderings on this subject, there seems to be some mysterious power at work which doggedly insists that man, in his efforts towards a more perfect civilization, *shall* adopt this very form of currency, whether he wants to or not. The Englishman who views with almost supercilious pity the

American and French peoples in their use of paper currency fails to see (or will not admit) that he has been compelled to adopt it himself, and that to a more gigantic extent than either greenbacks or assignats, in the creation of his cheque system.

In reality there is nothing new or revolutionary in the thesis here laid down. The English paper currency is not something visionary or merely "in the air." It is here amongst us, and is used by every business person on six days in every week.[1] The difficulty is to get the average person to realize and admit the fact

But our currency, although now (as is right) largely paper, is, as constituted in its present form, our most menacing danger, and in consequence of the crisis brought about by the war, needs to be boldly taken

[1] But now that it is more clearly perceived that the money of England is the cheque, which can be multiplied to an extent which is only limited by the prudence of bankers, and the security that their customers may be able to provide . etc (Hartley Withers, in Bagehot's "Lombard Street")

in hand and issued on true principles for the benefit of the whole nation, thus avoiding the evils which have attended previous issues of money in this form.

As to the principles of its issue, it has already been shown in Chapters IV to VIII the natural economics which underlie exchanges and the use of currency which arises out of those exchanges. It remains now to apply them to the present position.

It will at once be seen that we, in company with those other civilized nations who have adopted gold as the basis of values, have managed to get the pyramid of our national organization balanced on its apex, instead of resting firmly on its base. It would take too long on this occasion to show the real and positive ills we have laid up and are already reaping by this inversion; but the point which is of vital importance to apprehend is, that the restoration of the equilibrium can only be accomplished by putting values on their natural foundation, and, having done that, to allow currency to

perform its natural function as a token of those values in exchange.

In order to take this initial step it is essential that the token itself should be valueless and not of a restricted nature. Obviously, these conditions are met by the use of paper. Next, that there should attach to the paper the natural purchasing power of wheat.

Let the mind be quite clear on this last point. The thesis here put forward as a proposition is *not* to issue paper currency against wheat; that, in effect, would be merely to pawn the latter But it is to get the purchasing power of wheat into the currency, and in order to do this, the amount in circulation must be such as will enable the market value of wheat to be kept, *on an average of years*, at a fixed point, and this can only be done by the currency becoming a regulated one. Turn back to the illustration in Chapter VIII on page 95, where the principle now being elucidated was propounded. Assume for a moment that the population of a country is temporarily fixed. It can

be estimated with a practically certain accuracy the amount of wheat which that population will consume in a year. Every housewife knows how many loaves of bread she requires to take per day for her household. On the average she takes neither more nor less, provided the inmates of her home remain the same. From this the average weekly, monthly, yearly consumption can be deduced Every one, on the average, requires the same amount of bread per day, per month, per year, and from this the average requirements of a given population can be ascertained. Taking the United Kingdom as an example, the number of quarters of wheat required for annual consumption can be arrived at without any real difficulty.

To maintain the price of wheat in the chief grain market of the country (say, London) at an average price of, say, 30s. per quarter, only a certain definite amount of currency would be required to be in circulation, and the amount would be ascertained by watching the market price of

wheat over an average of years. If the average price fell to 25s. per quarter, it would be clearly demonstrated that the currency in circulation was insufficient for food purchases, that is to say, it had been withdrawn by savings, or was being used in making exchanges for things other than food, always providing that the food requirements remain the same. In order to bring the price of wheat back to 30s. additional currency would have to be issued until the price in the chief grain market rose again to 30s.

On the other hand, if the price rose on an average of years to 35s, it would be equally manifest that too much currency was in circulation, and further issues would have to be suspended until the price had returned to 30s. This latter contingency should probably never arise when values were based on principles as here set forth. In a civilization based on a true system of economics the tendency would invariably be the other way—viz. to add currency to prevent the price of wheat falling, as the

ultimate power of economic expansion has practically no limits.

To issue paper currency "against wheat" or any other national asset, such as houses, manufacturers' stocks, etc., as is at present so freely advocated, would be disastrous to the ultimate national well-being, for it can only be the forerunner of a rise in general prices, and in effect destroys the very function of currency. This function is essentially to effect exchanges, which predicates that something must be parted with. But if the entire nation's assets can be put into a state of unlimited pawn by issuing currency notes against them, nothing is parted with, no exchange takes place. The man with a house could have both it and currency. In the end the experience of assignats and greenbacks would be repeated.

But with a knowledge of the natural economic relations which exist between currency and exchanges, the proper course is to issue, and keep issued, that amount of currency which would maintain the price of wheat in the chief grain market

of the country at an average uniform price.

Nothing is required "behind" the paper but a true understanding by the nation of the main principles involved, and when these are once thoroughly grasped, the supreme self-interest of every individual in the nation would be at stake if these principles were foresworn. The great national asset would be this knowledge of the function of currency, and with it the will would not be lacking to see that the Government performed its duty in regard to the issue of money so as to serve the highest interests of the nation.

This self-interest would rise above the bickerings of party politics, for the national citadel would be in the keeping of every individual of whatever shade of opinion on other topics. Any Government which refused, or neglected, to do its duty in maintaining the currency could not exist for an hour. The whole nation with one voice would demand the surrender of their office, and they would retire from public life in-

delibly stained by the fact that, knowing their duty, they had not performed it, and in their wilful neglect had sinned against the nation as a whole.

In practice every Government would have the benefit of the advice of the National Currency Board—a body of men selected for their integrity and unimpeachable honesty. They would be appointed on similar lines to our judges, and would be free from legislative control. Their sole function would be to advise the Government from time to time as to the currency required by the economic needs of the increasing population, and to issue the annual amount to the executive to spend.

Such a currency would be based on true economic principles, and would be a national currency. It would be the great lever by means of which the unlimited expansion of the nation could take place, and, so far as the internal trade of the country is concerned, it would be the foundation-stone of social

reformation and the solution of the labour difficulties

How this would come about, and what its influence would be on our foreign trade relations, is reserved for future chapters.

CHAPTER XI

NATIONAL CURRENCY AND NATIONAL WELL-BEING

SUCH a national currency having been established as described in the last chapter, it now remains to show what its effects would be on our national and international relations.

The first effect nationally would be the stability of the average price of wheat,[1] and this would open up a fair and equitable access to the land for all, not by revolutions or other forcible means, but by allowing the scales of economic justice to be evenly held by personal freedom operating through a true theory of rent.

The rent of the land is derived from, and ultimately rests upon, the surrender by the tenant of a certain fixed quantity of the

[1] A desideratum much sought after at the present time

produce. This is the primitive form of payment. But, just as the cumbersome method of barter is superseded in the case of exchanges by the more convenient method of currency, so the payment of a fixed produce rent eventually gives way to a fixed money payment

When payment "in kind" is in vogue, no hardship or injustice arises either to the tenant or the landlord. If the rent is two bushels of wheat, as long as these are handed over the rent is duly discharged. But when the rent becomes payable in currency, the wheat has to be converted into money, and the amount of grain to be given is subject to the price of wheat in the market.

Where food prices remain stationary for any length of time, the rent contract will be as justly discharged by money as by produce But directly food prices alter, the discharge of the rent contract becomes a matter of injustice, either to the food producer or to the landowner, according to whether the price of food, as stated in money, has fallen or risen.

Thus, for example, the original rent contract may have been that one acre of land should pay a rent of two bushels of wheat. That was the proportion of wheat which the food-producer could afford to allow for the use of the land out of his surplus; and whilst payment in kind continued, the rent contract was satisfactory on both sides. But when the decision was reached that rent payments should cease to be made in kind, and were to be made in gold, the food-producer had to acquire it, and he could only do that by taking his produce to the customary place of exchange (i.e. the market) and there selling it for gold.

Obviously, it then depended on the plentifulness of gold as to how much of it he was able to obtain for his wheat. If it were abundant, he was able to get much gold, for prices were high. His two bushels of wheat thus gave him more gold than he wanted for his rent. In the end rents rose, *to the detriment of the food-producer.* If, on the other hand, gold were scarce,

prices were low, and in order to get enough gold he had to part with more than two bushels of wheat; indeed, he might have had to part with five or even six bushels before he was able to get together sufficient gold wherewith to pay his rent. In the end rents fell, *to the detriment of the landowner*, but more often than not only after the original tenant had been ruined!

Reflect for a moment on what happened. Two bushels of wheat were the original rent when it was payable in kind, but as soon as the payment had to be made in gold it depended upon the market price of wheat whether the food-producer received for it more gold than he needed to pay his rent, or less. In either event the food-producer or the landowner suffered, and, in fact, the falsification of every money contract entered into by subjects of this country, either at home or abroad, in British money, is falsified in favour of either creditor or debtor on balance to the disadvantage of the debtor.[1]

It is clear that the primary trouble lies

[1] See p. 27.

in the medium of exchange. It is quite true that superficial fluctuations of the price occur owing to the laws of supply and demand, but where these fluctuations occur persistently the cause is deep-seated, and must be looked for in the medium of exchange.

Stability in food prices is an absolute necessity if the rent contract of land is to be justly discharged, and this can only be brought about by a *regulated* currency, and a regulated currency can only be made possible where the medium is of no intrinsic value and capable of expanding with the demand for exchanges; it should, therefore, be paper

But with the currency once regulated, it would be possible for the Government to ensure to the food-producers absolute freedom to produce the greatest possible surplus of food by enacting that the land shall be rented with fixity of tenure, fixity of rent, and with the right to sub-let at a profit rental This it would be imperatively bound to do in the interests of wage-earners, for

by this means it would ensure to them an *alternative to working for wages*, and by doing so, not only would land tenure undergo a silent revolution, but hand in hand with it would come an equally silent reformation of the entire social organization, which would get the pyramid of Society firmly established on its base instead of, as at present, precariously balancing itself on its apex Economic freedom would be the heritage of all, for the road being open to the land by a fair and true system of renting, *an alternative to working for wages* would be provided, thus creating the natural equilibrium referred to in Chapter VII, and bringing into view the keystone of social progress. Under present conditions, without the possibility of obtaining land, the wage-earner cannot grow his own food, and if he is unable to earn wages and so obtain gold he cannot purchase food grown by others. Lacking capital, he cannot purchase land, and even to rent it the present conditions of tenure are so inequitable that there is little inducement to accept them.

But under the conditions suggested, when competition for wages became so keen as to be intolerable, the wage-earner could freely turn to the land and become a food-producer True, he would be reduced to the lowest rung of the ladder, for the rent he would pay would include the greater part of the advantages which had accumulated previously in the form of the increased purchasing power of food. But with fixity of tenure and fixity of rent, his food supply would be assured.

The change, if made, has a reflex action On the one hand the local manufacturing circle would be relieved of a competitor; on the other, the advent on the land of another man with a surplus of food at his disposal at once gives manufacturers another potential buyer desiring the comforts of life which they create, and stocks which have accumulated have now a fresh outlet in the newly arrived tiller of the soil And conversely, if the food-producer, tired of the land, thinks he will become a manufacturer, and does so, the effect produced in the

towns by another competitor for wages has the effect of depressing them.

Thus the circulation is created, and a natural equilibrium maintained in consequence of the free alternative to produce food under proper conditions being available when working for wages is considered unsatisfactory

Compare this for a moment with the present system, and it will be seen at once where the present-day labour unrest lies. Where does the primitive man fashioning a canoe differ from the modern worker engaged in riveting the iron plates on a steamer, or the old-time maker of shoes from the present-day factory hand uniting soles to uppers? There is no real difference in their work, but there is a vast difference in the circumstances under which the rewards (or wages) are obtained by these representatives of the old and new order of things. The canoe-builder was able to obtain for his first canoe thirty days' food, together with an equivalent equal to another thirty days' food. It was possible for com-

petition to lower this equivalent, but there was a point below which a further fall was not possible—viz. where the amount given for the canoe only equalled that which the canoe-builder could have obtained for himself if he had remained a food-producer. When that point was reached he had no necessity or inducement to make canoes merely for his food and be dependent on another man. In the state of freedom in which he was he could always produce that amount of food for himself by turning to the land, and thus put in force the powerful economic lever which exerted its power on both sides.

Turn now for a moment and consider his modern prototype in the shipyard. His real wages are the amount he can retain after he has provided for his food Do not get confused because modern wages are symbolized in currency, say 30s. per week. Remember that in effect the coins composing the currency are of no use to him until he has first converted some portion of them into food. When he has used that portion

in obtaining what Nature demands that he must have to keep himself in health, and he sees what currency he has left to exchange for the comforts of life—that is, for boots, shoes, etc.—it is then that the iron enters into his soul For, unlike his ancient brother, there is *no limit to the fall which his wages can endure* They can be reduced to the actual starvation line, *because he has been deprived of his alternative of returning to the land to grow his own food*. His economic freedom has long since gone, and now he dare not leave his riveting whatever his wages may be. As a slave he is chained to the job. Smarting under the injustice of such a system, he combines with his fellows in trade unions, chiefly with the one object of preventing the dreaded fall in his wages. All the upheavals and unrest of labour follow, only with this tragic result, that the more wages are forced higher, by just so much are the receivers of the wage deprived of the benefit of the rise because of the simultaneous rise in the cost of living. Out of this vicious circle there appears to

be no escape; indeed, there is and can be no escape until the old inherent right of the man is restored, viz. to be able to return freely to the land and produce his food, which he can scarcely obtain by wages.

Within the ambit of the silent revolution which would come about by the adoption of a national currency would come light and leading on that much vexed question "the unearned increment." It would be seen that this justly belongs to the man who puts labour into the land, and that it is his by virtue of that labour Under present conditions, the one haunting fear which possesses the mind of the land-worker is lest the fruits of his toil (which are always at the mercy of his landlord) should be periodically appropriated in the form of rent Fixity of rent, with fixity of tenure and the right to sub-let at a profit rental, gives a chance to the man who puts in the labour, and the so-called unearned increment is found to be earned after all when it finds its way into the rent which is rightfully

and legally the property of the improver. The State has no more right to this "increment" than the landlord. It belongs to the man who created it.

Once more, the outcome of a national currency, and consequent stability of wheat price, would be the true economic arrangement of values. Under the influence of true competition the prices of manufactures would always tend to be on the downgrade, whilst the purchasing power of the food-currency would correspondingly rise although on an average of years the price of wheat remains steady. This co-related combination may be regarded as the infallible index of a civilization well and truly laid on the bed-rock of natural economics, and social development is enabled to proceed apace.

It may be objected that it is one thing to enact and another to get landowners to let on the terms of the enactment. But the door stands ready open. The Government would initiate the new law by applying it to the Crown lands, and this of itself would eventually bring into line all others

who have land to let Once having been started, nothing could resist the silent revolution which would go on in the tenure of land.

The reader may observe that a seeming paradox has been arrived at, in that competition shows itself as an angel of light instead of the dark fiend it is generally regarded to be. As a matter of fact, competition is the handmaid of civilization. The thing which to-day masquerades under this name is not competition at all, but monopoly, and this originates in the present system of currency and ends with the land. Reform the currency, place it on a civilized basis, and competition assumes its proper position, and becomes the life-blood of progress.

It is not intended, nor would it be possible in such a condensed chapter as the present, to apply in every detail the exact workings of the theories presented. But enough has probably been put forward to show their broad workings, and their general application to the acute problems of to-day.

Let the earnest social worker who is struggling to stem the tide of present-day injustices by piling up Acts of Parliament on the Statute Book (and so often failing to attain the object sought) turn his or her attention to this question of the currency It appears to be a complicated subject, but yields to clear thinking when essential principles have been grasped Study will reveal the fact that here is the source, the head-spring, of our social and economic discontent No amount of tinkering with the present state of things will yield any permanent benefit. Along the hitherto untrodden road of currency reform will the nation find and realize those things which belong to its internal and external peace, and no greater service can be rendered to the nation than a devotion to the study of the subject. We must now pass on to show how completely it will realize as well those things which belong to its international peace—a peace which to-day seems so terribly far-distant, and almost beyond the power of man to achieve.

CHAPTER XII

NATIONAL CURRENCY AND INTERNATIONAL WELL-BEING

IN considering the relation of a national currency to our international commerce, it is as well to clear the ground at the outset by pointing out that there is nothing novel or revolutionary in the idea. Up to the year 1872 this country possessed a national currency of gold. This precious metal had not then become internationalized in the way we know it to-day No European country but our own had then adopted the gold standard, and did not, therefore, desire it as a circulating medium. The consequence was that foreign nations who wanted to sell to us—chiefly food products—had to take their payment from us in the form of manufactured goods. They had the option of taking gold,

of course, but as this had practically no international use, it was of no service to them. Hence, they took from us manufactured articles which they wanted, and which, generally speaking, they could obtain nowhere else, for Great Britain had become the world's workshop.

It is also well to recall the main factors which operated to bring this country so rapidly to the front as a manufacturing nation. Broadly speaking, the success of the first Georgian and succeeding Victorian periods was based upon the rich deposits of coal and iron which this country possessed. These would have remained inert had it not been for the inventive geniuses of the eighteenth century, who led the way to the practical use of these concealed riches by the discovery of the process of smelting iron with coal and the invention of the steam-engine. These two converted England from an agricultural to a manufacturing country. A tremendous impetus was added before the close of the century by the invention of Hargreaves

(spinning-jenny), Arkwright (spinning), and Crompton (the "mule" in weaving). Backed by these, Great Britain easily took the lead.

But there was, in addition, a latent influence which, in the heyday of her unparalleled development was not recognized, and the value of which, having been since lost, the nation has not yet discovered. This latent influence made itself felt because her currency of gold was national. Other nations having, for the most part, silver currencies (France had a bi-metallic currency of gold and silver), gold was little in demand abroad, and those who sent produce to Great Britain were thus in a very real way compelled to take English manufactured goods in exchange in order to obtain an equivalent value. Under these conditions genuine Free Trade flourished in the form so splendidly advocated by Cobden.

In 1873, however, as the corollary to the gold indemnity she extracted from France at the close of the Franco-Prussian War,

Germany adopted a gold standard currency, and her example was gradually followed by the other continental nations. It then became possible for colonial and foreign food-producers to sell their food to Great Britain for *gold*, instead of for manufactures as formerly. This might not have had any serious result if gold possessed the same purchasing power here as abroad, but in consequence of the well-known economic doctrine of the "Quantity Theory of Money," it was inevitable that, with gold as international currency, trade should go more and more to foreign countries.

Before passing on, the nature of this doctrine must be examined. In effect it goes to show that a wealthy country will have a larger circulation of money per head of the population than a poor country, and if the material of which the money is composed be identical, its purchasing power in the poor country will be greater than in the wealthy country. All this sounds very formidable, but on examination it will be found true, on a basis of common

sense as much as on economic doctrine, that things are cheap in a poor country and dear in a wealthy one. It is singularly emphasized in the instance given by Viscount Hayashi, who, in an interview granted to the *Standard's* correspondent in 1904, said :—

> Money goes five times as far with us [Japan] as in England That is, we can buy as much for £1 as is possible with £5 in England.[1]

It seems inevitable, therefore, that if the currency of Great Britain and Japan be identical, the former must fail in competition with the latter, other conditions being equal.

Work this out in a concrete instance, and the truth of the doctrine will be still more clearly seen. A Canadian selling wheat to Great Britain prior to 1872 could have obtained payment in one of two ways—he could have been paid either in gold or with goods. As Great Britain was the only gold standard country then, there was no object in receiving gold, for it could not have been spent to advantage internationally anywhere

[1] See *Standard*, November 5, 1904.

else, and kegs of gold were not of much use on the rolling prairies. The alternative left was to receive payment in goods, and ploughs and instruments of agriculture were shipped to Canada in exchange.

But after 1873, when Great Britain had lost her national currency by the internationalization of gold by other countries, the position became vastly different. For now the Canadian wheat-seller can demand gold for his sales to some purpose. He can cast his eyes round the horizon of international manufacture to see where he can dispose of his gold to the best advantage. He can buy ploughshares in Great Britain, he can also buy them in Germany. But Germany being the poorer country, the circulation of gold there will be smaller than in Great Britain; that is to say, prices will be cheaper in Germany than in Great Britain, and the Canadian can obtain more for his gold there than in Great Britain, and he consequently makes his purchases there. Great Britain has got his wheat, but she has parted with gold

(her currency), which has gone to Germany to pay labour there for manufactured goods. What benefit, then, has the importation of Canadian wheat been to England from a trading point of view? None at all. It has in point of fact been detrimental, for the withdrawal of the gold to Germany affects the bank rate, and if the withdrawals be too heavy the rate will rise, and this penalizes the financing of industrial enterprise in this country.

Carry the operation out to its full extent, and in the end the wealthy country feels the pinch and complains that Germany is cutting her out in the making of ploughshares. The economic force behind the international gold is ultimately relentless in its operation, in spite of Protectionist tariffs or quasi-Free Trade doctrines. For a time the full play of it is retarded owing to the world's demand for manufactures exceeding the world's production, but ultimately, in order to compete, Great Britain must come down to the level of the German price if she is to keep her business in ploughshares.

And has not this been the gradual experience of Great Britain since 1873?

To bring down prices, however, tends to the reduction of wages, and if that be persisted in labour unrest ensues, culminating in strikes. In the attempt to stem the tide of this levelling-down process Capital and Labour, instead of being the complementary forces which they are and ought to be, are driven into hostile camps and the industrial peace of the country is always at stake. May it not be added, in view of the past nine months' experience, that the commercial hatred and jealousy brought about by the unfair conditions which our traders felt, but the true cause of which they did not understand, is really the cause of the world's peace being destroyed?

Before leaving this side of the subject, it is as well to illustrate further and emphasize the importance of a national currency as being the most powerful agent a civilized country can possess, both for the stability of its internal affairs and for the equitable and guarded conduct of its international trade.

The kingdom of Morocco possesses a silver currency of Moorish dollars and cents, called in the patois of the country Hassani. English merchants shipping goods from England to Morocco invoice their consignments in sterling. On arrival in Morocco these sterling invoices have to be converted into their equivalent in Moorish dollars, and on this basis the goods are sold. In the end the agent of the English merchant in Morocco has in his possession a heap of Moorish dollars which he has to get back to his principals in Europe in payment of the goods sent out. He has three alternatives open to him—

(*a*) To pack the dollars in a keg and ship them to England.

(*b*) To purchase something in Morocco with the native currency which will sell in England for gold.

(*c*) To buy a sterling draft on London which will exchange for gold.

Of these alternatives the first is impracticable, for Moorish dollars are of no use in England—in fact, they are of no use

anywhere else in the world, and they thus constitute a true national currency. The third alternative penalizes him by the rate of exchange charged by the bank for the cost of the draft. There is left only the second, and this is his best and most satisfactory solution of the problem—viz. to purchase something in Morocco which will sell in England for gold. That is to say, by having a national currency Morocco makes England take her goods in exchange for the goods she sends to Morocco [1]

A very forceful illustration of the danger to this country of having an international currency was afforded prior to the war, but it has not received the attention which it deserves. It is now a commonplace in the realms of finance that Germany very nearly defeated this country before even war was declared or a single gun was fired.

[1] As Morocco is not a manufacturing country, these purchases take the form of produce of the country, gums, wax, seeds, etc

Speaking as Chairman, and at the Annual General Meeting, of the Industrial and General Trust, Ltd., on May 13, 1915, Mr. Geo. A. Touche, M.P., said:—

"The manner in which Germany unloaded securities and discounted bills in the London market for months previous to the war was alike a peril to British credit and an evidence of Germany's deliberate preparation for war. Our financial security, which Germany hoped to wreck at the outset of the war, remained unshaken."[1]

By the unloading of her securities on to this market Germany could elect to take payment in one of two ways—she could receive it either in goods or in gold. As is now well known, she elected to take the latter, and was actually in the process of depleting this country of its currency prior to the outbreak of war, *and she nearly*

[1] Though unshaken at the time when this was spoken, history has an unhappy habit of repeating itself, and all the elements of unsoundness remain, ready for the time when a slightly greater combination of untoward circumstances plunges this country into irretrievable disaster

effected her purpose. The only protection we had was to raise the Bank rate to 8 per cent. and again to 10 per cent.,[1] which at once paralysed ordinary industrial finance, and when even this failed to stop the drain of gold the Government had to step in and declare a prolongation of the Bank Holiday, in order to give Mr. Lloyd George time to arrange for an issue of *paper money* to the banks. It was only the actual outbreak of war which saved the country from bankruptcy, by automatically stopping the drain of gold from this country to Germany

How different and how impregnable would have been our position had we then been in possession of a national paper currency! Germany selling her securities here would have received our paper, which would have had to come back here for redemption by the export of British manufactures before

[1] Mr Hartley Withers, in his "Lombard Street and the War," says that the bank rate was put to 10 per cent in order to comply with the requirements of the Bank Act, so as to obtain its suspension, if necessary.

value could be obtained; but with war declared her merchants would not have been able to purchase British goods for import into Germany, and under those conditions is it not probable that, realizing the mischief that would result to her commerce (as her Government could not then have failed to do), they would have held their hands, and the war would have been averted?

It is anticipated that the natural criticism will be put forward. Suppose Germany would not take our paper, but demanded gold—what then?

The reply is that if we had demonetized gold in favour of a national paper currency, and Germany had demanded gold, she could have had it as a commodity, *but not as our currency.* Our merchants would have shipped our gold in the same way that they would ship her tin, or copper, or any other metal she required; but this would not affect our currency and would not drive our Bank rate up to 8 and 10 per cent. and close our banks for four days, because it was feared every one

was going to scramble for the narrow margin of gold we had here, which none could get in full because there was not sufficient to go round.

Enough has now been said to show that genuine and equitable Free Trade depends on a national currency, and that having lost that national currency since 1873, we have lost its co-relative. In the same way the best Protection lies, not in tariffs but in a national currency which can only be redeemed in the country of issue by being exchanged there for labour products.

In the late fiscal controversy great emphasis was laid on the traditional doctrines, but any detached observer who had followed the course of the controversy must have been struck by the apparent fact that, in spite of the array of able arguments, each side had a skeleton in the cupboard. The Protectionist could never free himself from the necessity of food taxes if his plan were to succeed; and the Free Trader could never get rid of the fact that, despite all the advantages claimed for his doctrines,

they really failed in their application, for there still remained some twelve millions of people who, in the richest country in the world, ever hovered on the margin of starvation. The reforms he claimed to have secured for the working classes were generally levelled down by the rise in the cost of living, which meant that the advantages gained were subsequently and inevitably lost.

The bearing of the currency on the question having been missed so long, it is of the utmost importance that at this crisis of our history it should no longer be left under a bushel, but should come to the light.

By a reform of the currency on the lines indicated, the best Protection and the best Free Trade could be afforded to this country in its international commerce. The time is ripe, and particularly opportune, when ideals for which both great parties in the State have fought so strenuously can be realized. Party strife has temporarily gone into the melting-pot, and the moment

is auspicious for bringing out an amalgam formed of the best elements on both sides. If political and financial leaders could be convinced of the solution which awaits them of their problems when viewed in the light of currency reform, the result could not be in doubt for one moment.

There is no stupendous or complicated difficulty in the way, for more than three-fourths of the work has already been accomplished by the evolution of the present cheque system. The principles which are necessary to be courageously applied are used every day of the working week in making the bulk of our exchanges. It is only necessary to have the further courage to discard the narrow margin of gold which is supposed to be so essential to us, and create a national currency in its place.

Were this done, Great Britain would easily resume her position as leader of the world's commerce and of the world's civilization which the internationality of gold has done so much to jeopardize, and in the

economic reconstruction which must inevitably come when the war is over, by adopting such a currency, she would take to herself a financial defence which would withstand the shock of any impending economic cataclysm. If she does not do so, it is impossible to see how she will survive the relentless operation of the internationality of gold, and save herself from being dragged down to the level of the poorer countries. For if, as seems now certain, Germany emerges from the war relatively poorer than Great Britain than when she started in the fight, her people will inevitably have to work still harder than they do now; and with the purchasing power of gold there greater than ever, the position of British wage-earners and merchants cannot fail to be a desperate one.

CHAPTER XIII

THE STATE BANK

IT will be remembered by readers of Mr. Walter Bagehot's financial classic "Lombard Street" that he therein predicted with unerring accuracy the ultimate extinction of the private banker. This prediction he based on the evidence of forces strongly at work in the financial world of his day, and he foresaw that these would inevitably produce the results just mentioned.

It is a singular fact, and one which should receive particular and very careful attention in these days, that, just as there appears to be some unseen force persistently at work compelling us, even against our most cherished theories, to adopt a paper currency (manifesting itself in the form of cheques, and in a still more striking

manner since August 4, 1914, by the issue of Treasury Currency notes), so there appears to be another force quietly but surely making us adopt a single bank.

This has been cleverly shown by Mr. Edward R. Pease in his Fabian Tract entitled "Gold and State Banking," who, though writing from the standpoint of the particular views associated with Fabianism, shows conclusively that the arrival of a single bank is only a question of time, and that the forces are at work in a powerful manner which will produce this result.

In the tract referred to, he points out that the number of banks recorded in the Stock Exchange Year Book for 1898 doing a home trade in the United Kingdom and Isle of Man was 120. In the volume of the same publication for 1908 the number was given as 79. Thus in ten years 41 banks have disappeared. In the volume for 1912 the joint-stock banks number 68 (omitting one or two quite small ones), so that at this rate of decrease there will be 16 in 1924 and only one in 1929.

With a delicate sarcasm Mr. Pease disclaims entirely the prophetic mantle, but is content merely to "wait and see," and regards it only as a matter of time before the process of absorption is complete and the single bank emerges.[1]

The coming of the single bank (not necessarily a State bank) is also clearly perceived by Mr. Arthur Kitson in his pamphlet on "Industrial Depression," in which, after noticing the progress of amalgamation which has been going on, he says :—

> It is quite conceivable that within the next few years the bankers of England may combine to form one huge trust, so that individuals will be compelled to accept any service that the monopolists choose to permit

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[1] In July 1914 Messrs Robarts, Lubbock & Co. announced that they had amalgamated with Messrs Coutts & Co, and on October 1, 1915, Parr's Bank announced that it had taken over the old-established banking business of Thomas Barnard & Co of Bedford Whilst this book is being prepared for the Press, the further announcement is made that an amalgamation is pending between Messrs Barclay & Co, Ltd, and the United Counties Bank, Ltd, of Birmingham

These testimonies, emanating from entirely different quarters, are interesting, and should be instructive. For in whatever form and for whatever purpose the single bank ultimately appears, it seems clear that it is already in the making and in due time will be with us.

The only really important question which arises is, whether the single bank shall ultimately be a single monopoly in private hands or whether it shall be a single State bank.

From the point of view of a national, valueless paper currency, it is an emphatic *sine quâ non* that the single bank should be a State bank, and for the following reasons.

In the first place, it is obvious that private bankers could not be allowed to issue valueless currency, as it would put into their hands, for their *personal* benefit, power to acquire wealth beyond the dreams of avarice. In the second place, and quite apart from the one just stated, it would be impossible to regulate a currency

the issue of which was in the hands of individuals.

For these two reasons the issue of it must be in the hands of the nation—i.e. the King acting through the Government, as, in circumstances where something is to be got for nothing, it is the nation in its entirety which should benefit, and not particular individuals Further, it is only the Government which has the means of acquiring the knowledge of the factors which would enable the currency to be issued so as to coincide with the economic needs of the people, instead of with the desire of Governments or individuals for money.

The functions of the State bank would be twofold In the first place, as just mentioned, it would be through its medium that the King (acting through the Government) would resume the prerogative of issuing the sole currency so long usurped by bankers [1], and in the second place, it would be exactly what a bank is intended

[1] Chapter XIV

to be—viz. a place for the safe keeping of deposits of currency. The idea that banks in their present form are institutions for the safe deposit of money is a pretty fancy, seeing that they trade with these deposits instead of safeguarding them, with the result that more and more the deposits are becoming nothing less than deposits of their own making, represented merely by rows of figures in their ledgers, the legal pound having all but ceased to exist, having been superseded almost completely by cheque-pounds with but a precarious connection with legal pounds.

State banks would be opened in every important town, and as many subsidiary branches in market villages as may be necessary. Their object would be to afford to the public the freest possible facilities for the lodgment and withdrawal of actual deposits of currency. Being nothing but public safes for the security of private hoards, all deposits placed in them would remain idle until the withdrawal by their owners. No dividends or returns of any

kind would be paid by them, while only upon State banks could cheques be drawn, such cheques in the future (as at present) still passing freely current, being henceforth, however, always convertible into legal money units.

Assuming, then, that State banks have been created, and that none but cheques upon such banks are permitted, each owner of the credits now pretending to exist as "deposits" in the old private banks would be offered the alternative either of withdrawing his deposits from private custody and lodging them in the public bank (in which case the State would become responsible for their re-delivery on demand) or of leaving them as investments in the hands of the old private bankers in their new capacity as money brokers (in which case the State would be no further responsible for them). The money thus withdrawn from the custody of the private banks by each depositor would either be handed to himself to be disposed of as he pleased, or lodged to his credit in any branch of the

State bank, in both cases *taking the form of actual paper notes of varied and convenient denominations*.

The sole and only difference in the situation, so far as the depositors and the circulation are concerned, would be that cheques now drawn against what may fairly be called bankers' deposits of phantom money would, in future, be drawn against nothing but deposits of real money

So much for the depositors. But what about the bankers? It has already been shown that if they were called upon to repay the money—i.e. gold money—entrusted to them they would be hopelessly insolvent, for by no possibility could they ever repay, in gold money, the sums now credited in their ledgers to depositors. Startling as this statement may seem to be, it is in reality the actual position of the bankers at this moment. They are, so far as actual currency is concerned, insolvent, and they (of all institutions!) were the first to claim the protection of the moratorium. Indeed, it is not too much to say that

it was instituted to save their very existence. The pass-book of every depositor, so neatly ruled off at the 4th of August 1914, is a complete declaration of the failure of the present system. But of this much was said in the first chapter, and need not be repeated now. The whole situation having been allowed to grow up on accepted, but mistaken, lines, even the bankers could be treated with a fuller and more ample consideration than the mistakes of the past (in the commission of which they have been such important factors) would perhaps appear to warrant.

The State having taken over their liabilities to their customers, all that would be needed would be to allow an increase of time in which to pay their corresponding liabilities to the State in the new national money This being done, as their debtors repaid them the money which they owed the notes would be destroyed by the Money Issue Department as received, and all connection between the old bankers and the State would cease.

It may be asked, What future function would be discharged by the old bankers? The answer is that they would fulfil the very useful and necessary function (indeed, their natural and economic one) of money-brokers as between investors and merchants.

Such depositors in State banks who desire that their savings shall be remunerative will use the services of the money-brokers, whose business it will be to introduce their customers to investments where profits are made which allow the payment of a percentage for the use of their deposits. Thus merchants and trade enterprise will be financed.

This, in effect, is what bankers at this moment really are—viz. money-brokers. The "deposits" made with them are daily used in financing trade and enterprise, by lending to other people these "deposits" *entrusted to their care.*

In the reform here advocated, persons having large deposits of currency in the State bank earning no interest would

naturally desire to put such deposits to remunerative use. They would apply to the money-brokers (the present bankers) for suitable introductions to merchants and others engaged in enterprise where profits are earned, who could use these deposits to advantage In this respect the money-brokers would be merely continuing their present business as bankers, in so far as it applies to financing trade and enterprise, with this difference, that they would be dealing with deposits of currency actually in existence in the State bank instead of the present ones of phantom money which they pretend to hold.

CHAPTER XIV

A TAXLESS REVENUE

WE now reach one of the most interesting developments of the discussion.

Under any system of currency some portion of it is always rendered temporarily of no effect. This is occasioned by savings. Savings are currency out of action. Their power is, for the time being, nullified by their withdrawal, and it is not restored until they are put back again into circulation in order to effect exchanges.

A similar effect is produced, only in another way, by increases in the population; for, unless fresh currency is continually being issued commensurate with the demands for exchanges which the

additional population sets up, general values must fall.[1]

Another item, a little more obscure than the foregoing, perhaps, but operating none the less effectively, is that which would arise where a partially under-fed population (as at present is the case in this country) would make up the leeway under more favourable conditions. The additional food which would be consumed would require additional currency for its exchange Allied with this consideration is another somewhat akin to it—namely, that once the nation was adequately fed, wheat would enter more freely as a constituent into subsidiary foods other than bread. These two increases taken together would demand fresh issues of currency

For purposes of estimation and illustration the population of this country can be taken at 45,000,000 persons, and if an estimate of 12s. 6d per head be taken as the annual amount saved per head of

[1] See Chapter VIII, pp 95–6.

the population it will probably err considerably on the right side.[1]

As regards the increase of population, this may be put at 250,000 per annum,[1] and if we further say that each of these extra persons will require £20 of money per annum for their requirements, the estimate will not be excessive.[1]

As regards increase in food requirements, we may estimate this at 5s. per head of the population.

Tabulated, these estimates appear as follows.—

			£
1	Annual savings per head · 45,000,000 persons at 12/6	.	28,125,000
2	Growth of population 250,000 persons at £20	...	5,000,000
3	Increase in food requirements. 45,000,000 at 5/-	. ..	11,250,000
			£44,375,000

This sum of £44,375,000 represents the amount of currency which it would be

[1] See note at end of chapter.

necessary to issue annually in order to maintain the price of wheat at a fixed level on an average of years. It is, therefore, an annual taxless revenue which is at the immediate disposal of the Government. Such a revenue is raised without any complicated machinery, requiring no additional "hordes of officials" or any expensive civil machinery Neither does it interfere with any one's "rights." All that is necessary to bring it into existence is to print the notes, and then issue them to State workers in exchange for their labour—e.g to Civil Servants, dockyard workers

At a time such as the present, when public men are looking into every conceivable corner for fresh revenue wherewith to meet the enormous expenses occasioned by the war, the "taxless revenue" could be utilized in the discharge of these burdens. For example, the interest on the first War Loan of £350,000,000 at 3½ per cent amounts to £12,250,000. If the second War Loan

amounts to £700,000,000, the interest at $4\frac{1}{2}$ per cent. will amount to £31,000,000. The interest charges on the two War Loans together equal £43,750,000, and this could annually be met by the "tax-less revenue" without any fresh taxation, and without any single individual in the country being worse off for it.[1]

Whilst on this point it may not be unprofitable to quote the instance of the Guernsey Market Hall, which was paid for by the issue of "Currency" notes.

The Municipality of Guernsey had the necessary material. Workmen were engaged, and currency notes were issued. Wages were paid in these notes, and the tradesmen (who had been notified by the Municipality that the notes would be accepted in payment of rates) took the notes from the workmen in exchange for the necessities of life, and the trades-

[1] The writer commends this suggestion to Viscount St Aldwyn and his colleagues who met at the Merchant Taylors' Hall on July 16, 1915, to consider the national financial position.

men paid the notes back to the Municipality. When the Market Hall was finished, and the stands let, the rents were applied in cancelling the notes, which were burned at a meeting of the Council.

NOTES ON THE FOREGOING ESTIMATED FIGURES.

According to the 1911 census, the population of the United Kingdom was 45,216,665.

The population in 1851 was 27,368,736, thus giving an average annual increase of over sixty years of 297,465. The estimate of 250,000 in the text, therefore, is well on the right side.

According to the *Daily Mail* Year Book of 1910, the amount of deposits in railway, trustee, and Post Office Savings Bank amounted to £242,654,334, from 12,156,138 depositors. The average is thus £20 per head for a little more than one-quarter of the population. The bulk

of this is in the Post Office Savings Bank. The estimate, therefore, in the text of 12s. 6d. per head as the average savings will, no doubt, be considered as sufficiently conservative.

CHAPTER XV

CONCLUSION

At this moment there looms before the mind of the earnest man of affairs a haunting fear as to what will be the outcome of the present war in the economic sense. Shall we survive the realities which the war has forced us to face?

It is admitted on all hands that affairs will never return to the same grooves out of which the shock of war turned them. Prior to the war, social and economic affairs were groaning and travailing together towards the attempted realization of a freer life. The forces which were making for this were growing restless and impatient under the restraints which, rightly or wrongly, were supposed to stand in the way of progressive development. There

were those who saw, or thought they saw, trouble ahead. Whether the usual sturdy good sense of the English people would have been sufficient to save the situation which was developing to one of actual menace, and whether the remedies which were intended to be applied would have effectually healed the trouble, can now only be a matter for conjecture. That epoch has passed and gone. The war has put a different construction on all movements, and it is realized, in a greater or less degree, by the majority of thinking people that, whatever our preconceived notions formerly were, a vast amount of "give and take" will have to be conceded in all ideas if any true reconstruction is to take place.

When the military struggle is over, and the last soldier has left the stricken battlefields of Europe, this country will resume its economic struggle with the rest of the world, and the position which Germany occupies in that struggle is, of course, the one which is at present upper-

most in every English mind to-day. Under the present gold currency the paradox will be demonstrated that, just to the extent to which Germany will have become impoverished, will the ability be hers to drag us down to that same level, as long as her currency and ours remain identical.

There is no room for complacency in the matter, nor for regarding the situation from the point of view of conventional ideas which were current before the war commenced. These the war has changed, and we have to realize it. We may adopt the many and various remedies offered for meeting what is called the German competition, but it is safe to predict that they must in the long run fail, whilst we, a rich country, continue the impossible task of trying to compete successfully with a poor one in prices based upon an identical currency. Without being desirous of falling into a dogmatic strain, the conclusion seems inevitable that such remedies will ultimately

shatter themselves against the rock of the gold currency.

If Germany in a military sense has "taken on the whole world," Great Britain in the economic sense plays a similar rôle in consequence of her premier position as the richest nation in the world, coupled with her adherence to a gold standard. For the economic struggle is not confined to that with Germany. Every other nation, having gold as its standard, takes its part. On every hand we have rising communities developing their own resources and finding work for their units of labour by doing their own manufacturing.[1] Even our own colonies shower upon us the products of their labour, and aspire to make those things for themselves which previously the Mother Country made for them.

[1] The somewhat startling announcement appeared in the *Daily Express* of September 29, 1915, that the Brusgaard Steamship Company of Drammen, Norway, have ordered three steamers from China, which country for the first time in history thus becomes a competitor with European shipbuilders

If at this juncture the opportunity could be taken to shake free from the difficulties which the use of a commodity as currency creates, by adopting in its place a national, valueless currency, Great Britain would ensure to herself an impregnable economic position, both nationally and internationally. And for those who delight to honour her for the moral grandeur of the reasons which led her to take the part she has in the present struggle, wider fields of admiration could be found when it was realized that she could lead the way in demonstrating to other nations how, by means of such a currency, their mutual dependence could be divested of that commercial jealousy and hostility which eats as a canker into the hearts of nations, eventually leading to strife and bloodshed.

For a valueless currency would establish within her own borders true economic liberty. By means of it the present tangled skein of social and economic difficulties would unwind with ease. Regu-

lation of the currency would allow the price of wheat to be maintained at a given level over an average of years. The stability thus secured would render possible a true theory of rent. This, implying as it does fixity of rent, fixity of tenure, and a right to sub-let at a profit rental, is the open gate to the land. The land being freed, not by State purchase, nor by revolution, nor by the injury of any one's rights, but by a true economic process, Labour would have an alternative to wages, thus giving both to it and to the employers that economic freedom which to-day is vainly sought for by methods of force and compulsion. The alternative to wages would become the keystone to social amelioration and progress, and the buttressing fallacies of "State help" and "charity" would give place to the sturdy civilized self-interest of every individual, and Government would assume its proper function of seeing only that justice was done between man and man in a State of individual freedom. Thus far nationally.

And internationally? With freedom becoming increasingly secure for every individual at home, as the field of human endeavour widens, so would the majesty of the new conception of civilization assume its full and true proportions. The national commerce, spreading wider and wider throughout the international field, would no longer bring in its train to other nations a seeming menace of overpowering dominancy. And, still more important to the nation that leads in this advancing civilization, it would no longer view with jealousy, tinged, perhaps, by fear, the increasing commercial development of other nations.

For under the new conditions (speaking only for our own nation, now equipped with a national currency) it would be absolutely inevitable that a nation desiring to sell to us the goods which we require would *have* to take in return an equivalent from us. Strange, indeed, that it should ever have seemed necessary for this need to have been avoided! But with

the fetters shaken off, it will readily be seen how wonderfully *free* trade would indeed become. For while there are nations which perhaps cannot take the goods we have to offer, but yet whose goods it is an advantage to us to have, there would come to birth that splendid factor underlying the true political economy —viz. that each nation would bring to the common need those goods it is best fitted to produce, and a marvellously complex trade would result, which, in the end, would adjust the trade balance between ourselves and that country unable to take what we have to offer. For the enterprising commerce of our nation would open up channels of trade with countries whose goods we do not ourselves need, but who yet could take such goods as we have to supply, and those goods would, in turn, be passed on to the other country which is unable to take what we offer, but yet whose needs are that we should take from them. As this far-reaching trade progresses the links will

be forged ever stronger, binding individuals in one country to individuals abroad. Ultimately, as the number of these dependent individuals multiply, it must result in the binding of nation to nation by the slender but firm bond of commerce.

Under such a trade, the growing commercial power of other nations could be nothing but advantageous to ourselves, while the leading of them up to a higher level of material civilization would ultimately realize the vision of the poet when he sang of the federation of the world.

The protest which has here been entered against the struggle for gold is not merely the vampings of an overwrought moral sense. On the contrary, as has just been shown, it is backed by sound, hard-headed business reasons Any one making the effort to divest his mind of preconceived notions, must see the folly of loading ourselves with this incubus, bowing down with slavish awe and reverence whenever the word is mentioned, but at the same time trans-

acting the day's business on quite other principles If it were not so serious, one could wish that a Gilbertian mind might arise and ridicule the nation out of its threadbare theories

Whether leaders realize it or not, it is a supreme issue, and a heavy responsibility lies at this moment before the combined intelligence of this country, as to whether or not it will learn the principles of true civilization! It is not too much to say that it is an *awful* responsibility, for there is no alternative to their adoption if, as a nation, we desire growth and development on right lines. The rejection of the principles means a temporary continuance of national existence with the seeds within it ever making for decay. The acceptance of them gives to the country adopting them a power of future development, the ultimate bounds of which it is impossible to foresee.

If ever a nation stood at the parting of the ways, where the paths of life and death meet, it is this nation now.

Let there be no mistake. There is no monopoly in thought. If the British nation will not learn, there is nothing to prevent other nations readjusting their economic base and eventually leading the car of true progress. At this moment the distinction belongs to the British nation that from its midst arose the thinker who, in the crucible of his mind, reduced the principles of civilization to a reasoned statement for its acceptance.[1] Will the nation rise to the great opportunity of translating into action the thought of one of the noblest of her sons? That is the question of the hour, and before the last reverberations of the guns on the Continent have ceased in the bloodiest war the world has ever seen, will the nation have found its answer?

[1] Cecil Balfour Phipson, in his works entitled "The Redemption of Labour" and "The Science of Civilization"

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